MINING – DIAMOND

1995

De Beers looks a good bet on Harry's say-so

(216)

ST (BT) 1/1/95

THE JSE is buoyant — a fact which makes it hard to spot undervalued shares for selection in a 1995 portfolio.

Broadly speaking, corporate earnings are expected to continue improving, interest rates are more likely to rise than fall, the commodities cycle could peter out by the third quarter and there are few bulls on the gold price.

So, when there is barely a single voice in support of De Beers, it has to be time to put it into my top 10 punts for 1995. I read retiring director Harry Oppenheimer's parting thoughts this week and he still has confidence in the diamond industry and in De Beers If it's good enough for Harry, it's good enough for me If the value of De Beers' investments is subtracted from the share price, the diamond interests are valued extremely cheaply

I should not be accused of favouring Anglo American companies but I do like the Del Monte stable in which Anglo American Investment Corporation is a partner Del Monte will benefit from better pineapple prices, expansion into fruit juice manufacture in Europe and possible acquisitions

Shares in Del Monte Foods, Corporation and Holdings should trade at parity, making Delcorp the best value at 675c

The return of the tourist, narrowing down of casino outlets and more peaceful times will undoubtedly favour our gaming hotels I opt for Sun Ciskei, even though I like Transun too, because Suncisk looks relatively cheaper and is overlooked. Not many investment analysts study the company

In similar vein I have chosen investment trust Yabeng. At 435c it is at a large discount to notional net asset value of more than R7 — Sanlam has been a seller. Yabeng was restricted to investment in Bophuthatswana companies, most of which were Bop subsidiaries of JSE listed groups. When these holdings become shares in proper companies, Yabeng might sell them or pass them on to shareholders It has already swapped United Breweries for SA Breweries shares and directly holds Sun Bop

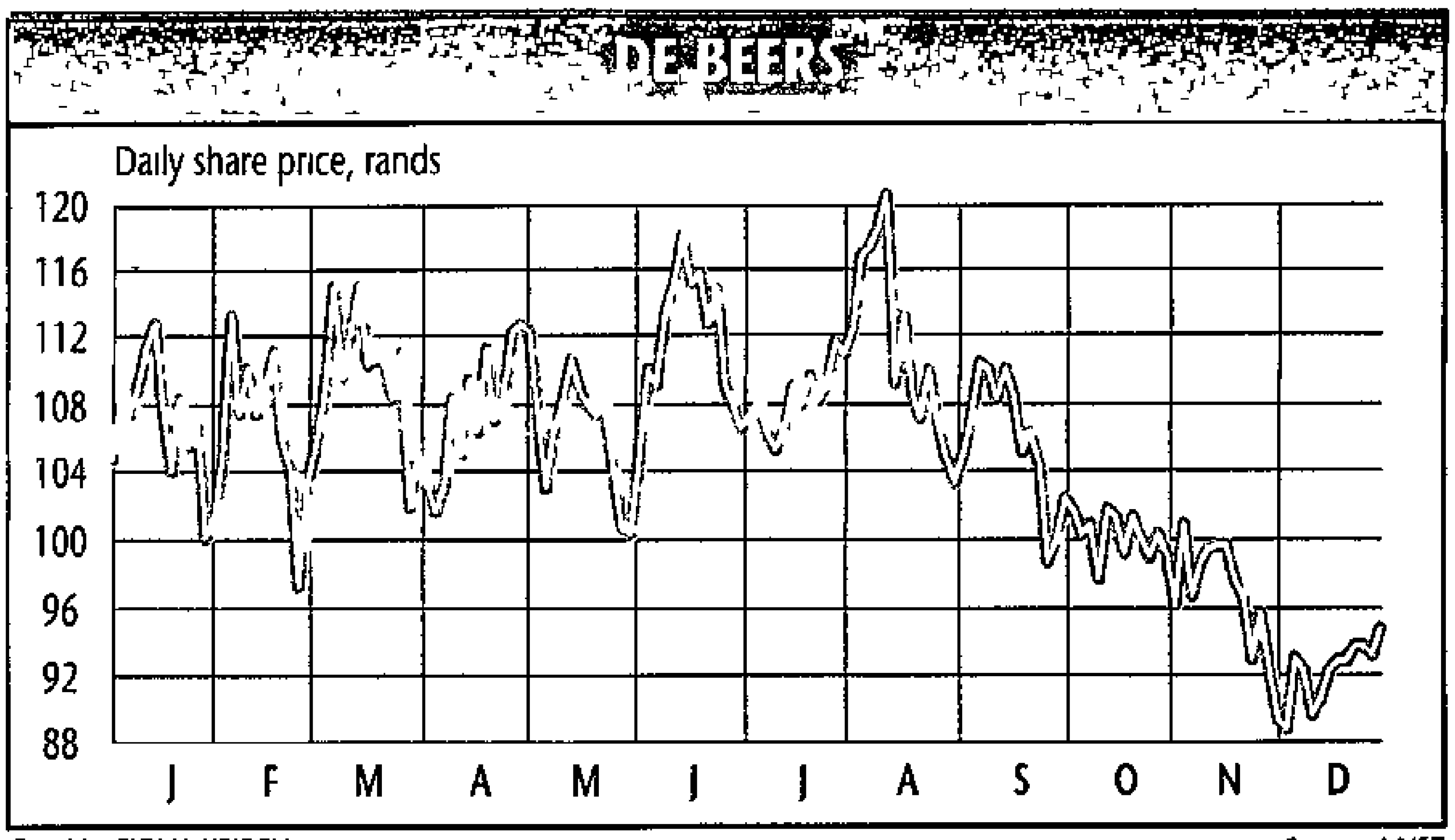
I include Randgold as a defensive measure should gold jump and as a potential unbundling beneficiary New management took over in August after a shareholder revolt, and under the chairmanship of Peter Flack a recovery course is being plotted Former Anglo gold division chairman Lionel Hewitt has also joined the board, bringing enormous experience

Randgold's exploration portfolio will be floated separately soon as the first step towards unlocking some of the intrinsic value

I had it last year and am going for ET Cons again as a recovery stock in the gold sector Capacity is at two thirds until the calcine precipitator is recommissioned in February but the insurers are considering claims and the share price has ceased falling I am not as bearish on gold as are most market watchers and ET Cons can take advantage of a rising price

I have chosen Genbel, an underpriced investment trust with good management that includes shares was toying with, such as Randex and Engen Genb is 950c, a discount to n asset value of almost 20% It is tradable, and has u dertaken an extensive pu lic relations effort ove seas so that foreig investors are familiar wi the name

My spies tell me you c buy rhinoboard manufa turer Gypsum Industri



Graphic FIONA KRISCH Source I-NET

Julie's 1995 portfolio

Prices at 10·30 Dec 30 1994	
Alex Whyte	125c
De Beers	9500c
Delcorp	675c
ET Cons	400c
Genbel	950c
Gypsum	3150c
Randgold	1160c
Seardel	775c
Suncisk	180c
Yabeng	435c

Graphic FIONA KRISCH

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with your eyes closed — trouble is you have to keep them sharply peeled to spot any stock. It has had a good run to the current R31,50 but can still climb.

Gypsum's walls and ceilings form part of every house and one can only hope that some time, one of these years, homes really will be built.

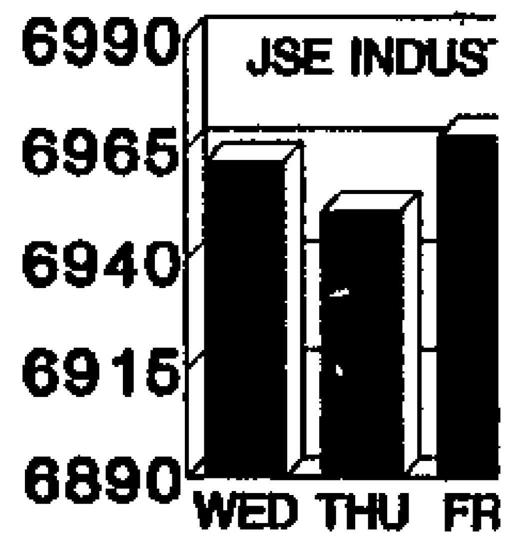
Down to the Cape, where, I understand, Seardel is booming The listing of Seartec at 175c (now 160c) has not been a glittering success from the subscribers' point of view but it achieved Seardel's objectives of unlocking value and reducing gearing

Prima Toys had a great Christmas (I saw them advertised on British television in November), Frame is picking up well and Seardel's clothing is also reported to be doing well

Finally, a tipster from the fairest Cape, who last year correctly recommended Aries, tells me Alex Whyte is a buy at 125c The packager and printer is almost too busy for an annual Christmas closure, a loss-maker has been disposed of and the company "is well poised to expand", according to chairman Terry Kane. It's my flyer, so fingers crossed

I have a few shares that almost made it — Transun, McCarthy, Coronation, Gentyre, GF Coal and Curnow — so chances are that these will all soar just to spite me

SINESS The Star
995
Edited by John Spira



Jewellery demand unexpectedly higher

Diamond market takes comfort from US sales

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Star 11/1/95

BY NEIL BEHRMANN

London — Cheerful Christmas sales should lend sparkle to an uncertain diamond market

US jewellery sales were up by 10 to 15 percent over the Christmas season.

"These figures are most encouraging, considering that our preliminary research showed diamond jewellery sales in the US rose 6 percent between Thanksgiving and Christmas," says Michael Grantham, director of marketing liaison at De Beers' Central Selling Organisation (CSO).

Diamond bracelets costing $200 to $3 000 were particularly popular, says Grantham

Although US trends are promising, it is too early to quantify the direction in Japan, which, after the US, is the biggest diamond jewellery market, he says

Tiffany, for example, says its turnover in Japan was disappointing. European and Pacific Rim sales returns have not yet been published.

De Beers, which controls about 75 percent of uncut world output, spends R600 million a year on advertising and market research to promote sales.

"For the diamond-dealing community, Christmas is the key," says Marcel Pruwer, a broker and consultant in Antwerp.

Season

More than a third of US diamond jewellery sales take place in the Christmas season, and sales returns influence the mood of the market in the new year

Buoyant Christmas sales have encouraged Lloyd Jaffe, chairman of the American Diamond Industry Association, to estimate that 1994 jewellery sales rose 4 percent to $12,5 billion

Worldwide, diamond jewellery sales in 1993 totalled 56 million pieces worth $42 billion, and should be higher in 1994, he says

The diamond market can be regarded as a pipeline. The CSO buys rough diamonds from mines and on the market at the beginning of the pipeline and then sells them to dealers and manufacturers at such cutting centres as Antwerp, Tel Aviv, Bombay and New York.

Once cut and polished, they are sold to jewellery makers, and then to retail chains. Within this pipeline several dealers and manufacturers are struggling.

Illustrating their problems, rough diamond sales dipped 2,7 percent last year to $4,25 billion and there was an 8,4 percent slide in the second half First-half turnover was buoyant

Yet, in the final six months, the CSO had to withhold diamonds because of excess inventories and concerns about profitability at leading cutting centres.

An outbreak of pneumonic plague in Surat, Western India, where most diamond processors are situated, aggravated trade there.

Russia, an important member of the diamond cartel, created uncertainty by selling $600 million worth of diamonds directly to the market.

Confidence

"Market confidence would improve markedly if De Beers strikes a solid agreement with the Russians before the present accord expires at the end of the year," says Jacques Zucker, an Antwerp dealer.

Inclusive of the Russians and other producers, annual rough diamond sales are now $5 billion ($2 billion a decade ago)

This growth has encouraged exploration in Canada, Australia and Africa.

Diamond mine shares plummet

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MICHAEL URQUHART

SMALL offshore diamond mining companies' shares had lost favour with investors in line with a general crash in exploration stocks, analysts said yesterday BD 3/2/95

They said concern about the state of the diamond market had also contributed to the fall in the share prices.

Ocean Diamond Mining (ODM) and Benguela Concessions are two small companies exploring for and mining diamonds off the west coast of SA.

ODM had dumped 50c or 18,5% since Monday, falling to 350c This was well off its high of 590c, which it hit in March last year. Benco was substantially off its September high of 630c, closing at 350c yesterday.

In a bear market investors tended to shed their least liquid shares first and held on to quality liquid stocks like De Beers, one analyst said

Another analyst said small diamond stocks had had a long way to fall. These companies tended to mine only small quantities of diamonds and spent most of their time delineating reserves and establishing the extent of deposits.

What had pushed the share prices was a general run on exploration stocks, which had followed the gold bull market of March to September. When speculators started seeing the gold board as overpriced, they had switched into exploration companies

Offshore diamond mining companies were seen in the same light as these type of stocks. When the legs fell off the gold bull market, exploration shares had also plummeted.

emy Woods

Diamond probe for Namco

(216) ST (CM) 5/2/95

WEST Coast diamond mining exploration will receive another shot in the arm as Namco, the Canadian diamond explorer, is set to start a 180-day bulk sampling programme of its concessions

Namco, which is listed on the Namibian Stock Exchange, has some of the largest concessions in Namibia as well as some highly regarded concessions along the Cape coastline

A Namco subsidiary has recently finalised charter terms over the MV Sprut, a 3 200 ton vessel with a full dynamic position capability and four point mooring

The vessel has a 100 ton A-frame and a 50 ton crane

Mobilisation is being completed in Cape Town before the vessel sets sail for West Coast waters

The bulk sampling programme will use specifically designed sampling equipment developed by Royal Boskalis in conjunction with Namco.

This will include the Namrod, a high-pressure machine capable of sucking large areas of the seabed and pumping it up to the decks of the vessel above for sorting and inspection.

"The programme is a continuation of Namco's fast track approach to the testing of its significant concession areas," says Namco president Alastair Holberton.

"The ability to undertake primary screening on the ocean floor coupled with an articulated means of moving oversized material such as boulders, is a unique combination in marine mining."

Mr Holberton said recent trials of the Namrod in the North Sea demonstrated "highly successful results with process recovery efficiency in excess of 95 percent."

The Namrod will clear 10 m² sample points down to bedrock.

RUSSIA & DE BEERS (216)

Polished or rough?

FM 24/2/95

Russia made almost as much in foreign exchange last year from sales of diamonds outside the framework of its contract with De Beers as it earned from shipments to the Central Selling Organisation (CSO)

The difference between the two sets of figures relates to polished and rough stones Yevgeniy Bychkov, chairman of the State Committee for Precious Metals & Gemstones (Komdragmet), says Russian sales of polished stones in 1994 earned US$1,05bn, up 54% on the 1993 earnings of $680m This nearly equates to Russian earnings in 1994 from the CSO for rough diamonds of $1,09bn, itself a slight decrease on the 1993 record of $1,2bn

On the face of it, it seems fair enough. But is it? Not if you believe what the CSO has been saying It provides a comprehensive single-channel marketing system for rough diamonds which it has succeeded in holding together for more than 60 years It does so for a variety of reasons but principally because De Beers fears — probably with good cause — that its collapse will result in a free-for-all which will damage the world diamond industry (and De Beers with it) irreparably

Russia holds a CSO quota of 26% of annual rough sales The problem with Komdragmet's sales of polished or processed diamonds is that the CSO believes they are rough or only partially cut stones They are being sold through joint venture partners in Antwerp, Tel Aviv and other diamond markets and the sales have been publicly criticised by De Beers as violations of its contract with Moscow

Since last May, Bychkov has been engaged in a steadily deteriorating struggle with De Beers about the terms which apply to sales of Russian rough to the CSO At the same time, Bychkov, one of the *nomenklatura*'s great survivors, has so far seen off rivals within the complex Russian political system, including disgruntled miners from Yakutia, the CIS's principal diamond producing region And he was a major beneficiary from the political turmoils of 1993 which enabled him to slip past parliamentary control over Komdragmet

At least part of the argument revolves around the size of Komdragmet's stocks Bychkov has let it be known Komdragmet's reserves are at least as large as the CSO's which — if true — makes him one of the industry's most powerful men However, the 7% production increase in 1994 by Yakutia's Almazy-Rossii Sakha (ARS), Russia's principal diamond miner, was the first in several years Over the same period, Russian sales abroad have been increasing and this suggests a substantial drawdown against Komdragmet's stocks

Bychkov, who is supported by a former KGB general, Yuriy Kornilov, has even managed to avoid — up to now, at least — any censure for his role in dealings with a San Francisco venture called Golden ADA to which Komdragmet transferred $88m worth of rough which have not been returned and for which payment hasn't been made Bychkov says he hasn't been interviewed by investigators and, anyway, he can only be removed by Russian President Boris Yeltsin so he probably feels well entrenched

Russia is a foreign exchange-hungry country Unfortunately, its efforts to increase its share of the CSO cake will enrage other participants if De Beers caves in, since it can only be done at their expense It is a delicate place to be CSO spokesmen have resolutely declined any comment

John Helmer in Moscow and David Gleason

BROADACRES (216) FM 3/3/95

The fun's over

Activities: *Diamond recovery on the west coast, north and south of the Olifants River mouth*
Control: *Shui Lung Investments 71%*
Chairman: *J Tcheng MD F P Slott-Nielsen*
Capital structure: *3,4m ords Market capitalisation R7,5m*
Share market: *Price 220c Yields 10,5% on earnings, p e ratio, 9,5, cover, n/a 12-month high, 250c, low, 52c Trading volume last quarter, 73 000 shares*

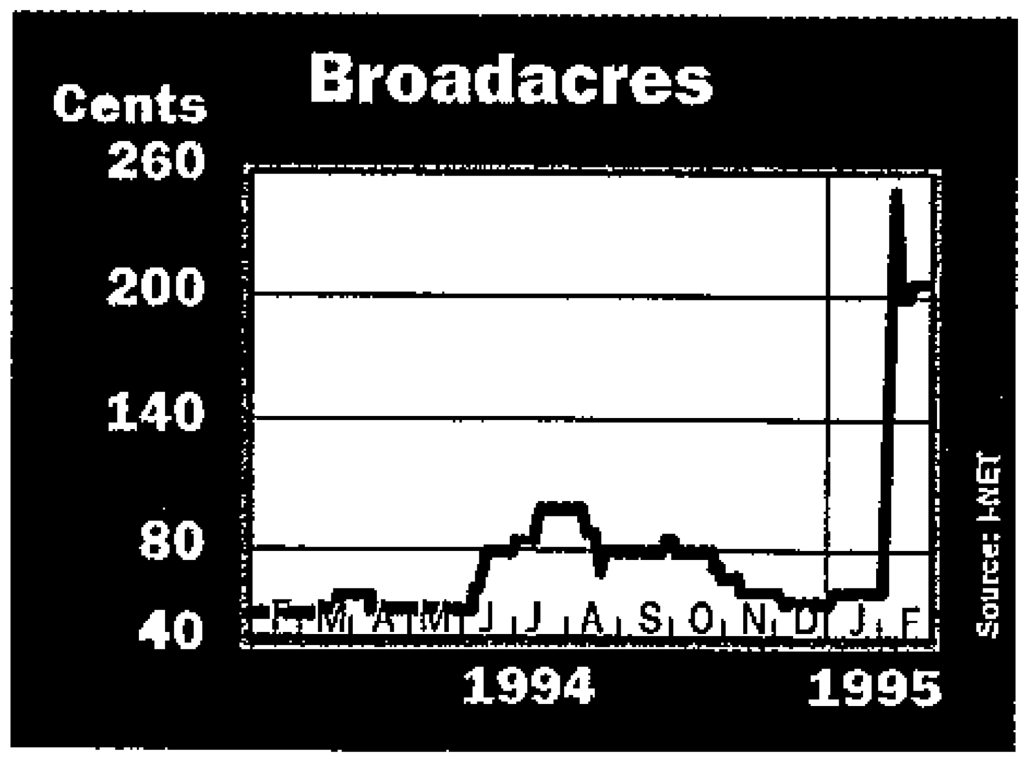
Year to June 30	'91	'92	'93	'94
Turnover (Rm)	*	5,0	11,7	8,7
Attributable (Rm)	0,2	(0,5)	1,4	0 8
Earnings (c)	4,7	(13,9)	40,3	23 1
Dividends (c)	—	—	10,0	—
Tangible NAV (c)	101,4	83,6	113 9	137,0

* Not disclosed

In a single day last month, the share price of this sea diamond mining stock more than doubled — from 60c on February 1 to 125c the next day By February 9, just a week later, the price had doubled again It is now 220c, a far cry from its normally sedentary performance, hovering between 50c and 60c for most of 1994

What has occasioned the extraordinary flurry and windfall profits is the announcement by Trans Hex, the mining group in which Rembrandt holds a 50% stake, that it has negotiated to buy the present major shareholder's 70,6% holding for US$1,7m, effectively valuing it at about 243c a share Thereon hangs an intriguing tale

Broadacres, listed in the diamond sector and unusually mealy-mouthed — even by JSE standards — in releasing information about its activities, has long been a source



of casual interest to those investors interested in mining and in diamonds in particular In a sense, too, the company has been a beneficiary of growing interest in SA's ocean diamond mining business, now recognised to hold unusual potential because of the high quality of the gemstones recovered from the west coast sea floor

Broadacres holds Admiralty concessions to mine a strip of land (and sea) in an area north of the Olifants river, near Vredendal This concession is quaintly defined as being from 120 (old) Cape feet above the high water mark to 100 (old) Cape feet below the low water mark As investors will appreciate, defining this precisely involves more than sleight of hand

Beyond this vaguely moving boundary, Trans Hex holds the concessions for areas 12A and 11A And, down the years, it has been a fairly vexatious problem

Trans Hex's subcontractors complained frequently that Broadacres encroached on their territory, Broadacres riposted similarly

I understand lines were sometimes cut — accidentally, of course, and various other little acts of unpleasantness occurred The argument was headed for the courts when a deal was struck in terms of which Trans Hex allowed Broadacres to mine its concession areas and profits would be apportioned appropriately

Not even that worked because the origin of the diamonds recovered was always a matter of contention The only answer was for Trans Hex to negotiate to buy out Broadacres' major holder, a process which Trans Hex financial director Niel Hoogenhout says has taken about three years to consummate The original investment by a Chinese businessman, now dead, has been taken over by his heirs, most of them resident in and around New York Since diamond mining in SA isn't a subject they know much about and doesn't fit in with their core investments, they weren't averse to a deal which enables them to walk away with a nice return

That will apply to minorities who must be viewing their good fortune somewhat googly-eyed

In the circumstances, Broadacres' latest annual report is about to become a collector's piece For the sake of form, however, net profit for financial 1994 was R788 000 or 23,1c a share, the dividend was passed

On a minuscule balance sheet (shareholders' funds of R4,8m), there are no borrowings and R2,7m cash at end-June. Trans Hex is awaiting the completion of a due diligence report before its offer sets in concrete It will be surprising if minorities don't accept, after all, there is no reason, now that momentary excitement has subsided, to remain invested

Inevitably, the company will become wholly owned by Trans Hex and will be delisted

Well, it was fun while it lasted *David Gleason*

RESULTS AND DIVIDENDS

Company	Pre-tax profit Rm 1993	Pre-tax profit Rm 1994	% change	Earned cents per share 1993	Earned cents per share 1994	Paid cents per share 1993	Paid cents per share 1994	Sector	Dividends Amount cents	Dividends Register by	Dividends Payable about
[illegible]	0 3	0 9	+191	●12	●16	#	3	Banks	[illegible]	Recommended	
[illegible]	2,9	5,2	+81	20	35	#	#	Clothing	—	—	—
[illegible]	359,6	441,1	+23	▲58	▲74	—	—	Ind Holding	—	—	—
[illegible]	Z25 1	Z36 2	+44	●53c	●75c	9 66	20 33	Electronics	†14,91	10 3 95	29 3 95
[illegible]	—	—	—	—	—	155	176	Chemicals	†110,00	3 3 95	27 3.95
[illegible]	18 0	20 6	+15	303	337	84	92	Paper & Pack	†70,00	24 3 95	15,5 95
[illegible]	11,0	13 6	+23	56	79	10	12 5	Building	*12,50	17 3 95	31 3 95
[illegible] P	103,7	72 8	-30	160	136	50	60	Insurance	†44,00	10 3 95	12 4.95
[illegible]	3 0	3 8	+25	20	25	19	24	Beverages	*24,00	10 3 95	24 3 95
[illegible]	114,2	121 6	+7	44	48	12	14	Beverages	—	—	—
[illegible]	5,6	18,8	+237	●4	●13	2	3	Building	*3,00	4 4 95	18 4 95
[illegible]	5 6	18 8	+237	4	13	2	3	Building	*3,00	4,4 95	18 4 95
[illegible]	❑	407 0	—	❑	29	5	6	Min Houses	*6,00	10 3 95	29 3,95
[illegible]	1,7	3 4	+98	12	24	#	5	Building	*5 00	4 4,95	18 4 95
[illegible]	46 0	58 9	+28	41	53	6	8	Building	*8,00	10,3 95	13 4 95
[illegible]	38,4	43 9	+14	●7	●8	1 4	1 7	Electronics	*1,70	10 3 95	13 4 95
[illegible]	11,1	27,8	+151	11	23	#	5	Building	*5,00	4 4 95	18,4 95
[illegible]	11 1	27 8	+151	11	23	#	5	Building	*5,00	4,4 95	18 4 95
[illegible] F	65,2	52 8	-19	●616	●522	224	268	Insurance	†15[illegible] 00	10 3 95	31 3 95
[illegible] I	40 3	52,9	+31	●111	●145	—	—	Food	—	—	—
[illegible]	50,0	79 9	+60	●34	●50	13 2	19	Ind Holding	*19,00	17,3,95	26 4,95
[illegible]	179,6	368,6	+105	132	291	46	50	Min Houses	*50,00	24 3 95	24 4 95
[illegible]	295 6	305 2	+3	●119	●126	69	72	Beverages	*72,00	10 3 95	31 3.95
[illegible]	12 2	12,6	+3	●66	●53	20	22	Banks	—	—	—
[illegible]	—	—	—	—	—	44	104	Clothing	†90,00	3 3 95	5 4,95
[illegible]	20 8	(11 4)	—	271	(112)	70	80	Insurance	†50,00	13 4 95	5,5,95
[illegible]	15,1	17 9	+19	33	36	11	11	Clothing	—	—	—
[illegible]	58 0	60 6	+4	25	26	3 5	4	Beverages	—	—	—
[illegible]	37,6	45 3	+21	66	72	15	16 5	Engineering	*16,50	10,3,95	24,3 95
[illegible]	57,3	69,5	+21	21	25	4	5	Beverages	*5,00	3 3 95	17,3 95
[illegible]	29 8	41 6	+40	▼105	126	34	38	Ind Holding	†26,00	24,3 95	—
[illegible]	—	—	—	—	—	#	10	Building	†10,00	10 3.95	5 4.95

P = Preliminary ● = Weighted earnings per share # = Dividend passed ‡ = Annual I = Interim ▲ = Figures restated for subdivision and tax rate charges Z = Zimbabwean dollars. c = Zimbabwean cents † = Final D = Dividend * = Interim dividend ❑ = Not comparable ▼ = Restated in order to exclude STC from taxation

Lower earnings from Venetia hit De Beers

BD 6/3/95 216

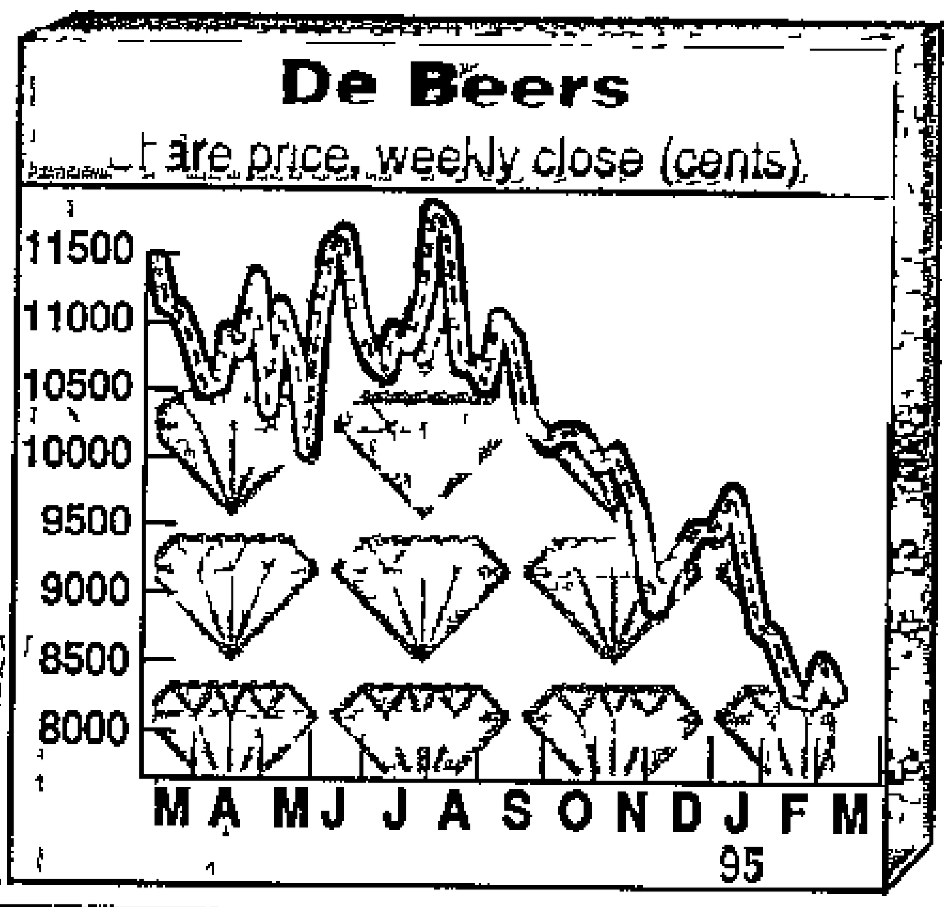
MICHAEL URQUHART

ANALYSTS scrambled to reduce their forecasts of De Beers' full-year earnings on Friday following news that second half earnings from the diamond producer's Venetia mine had nearly halved compared with the same period a year before.

Results from Anglovaal subsidiary Mid Wits on Friday showed the contribution from Venetia, received by Mid Wits via its holding in Saturn Mining, fell from R34,5m for the six months to December 1993 to R18,8m for the six months to December last year. De Beers' share price dropped 200c or 2,3% to R83 after the results were announced.

Based on the much lower contribution from Venetia, analysts reduced their earnings forecasts by 20c to 30c. They said they were now expecting De Beers to report equity-accounted earnings of between 760c and 810c, with the dividend held relatively steady in dollar terms. De Beers reported equity-accounted earnings of 765c a share for financial 1993

Although this meant earnings in rand terms would probably be slightly up, all the analysts were predicting a slight fall in earnings in dollar terms.



An analyst said the fall in contribution from Venetia would not have that big a direct effect on De Beers' earnings, but it indicated the diamond market situation was worse than previously thought.

Another analyst said the fall in Venetia's earnings was in line with the general trend in declining contributions since De Beers had started complaining about the effect of illicit Russian sales. He said it was significant that the mention by Mid Wits of stockpiling at Venetia was the first time any of the parties involved with Venetia had officially talked about stockpiling.

He said Venetia's earnings potential was enormous, but it had been stopped from achieving this potential by the weakness of the market and the necessity of stockpiling. Venetia was the swing diamond producer in SA, meaning it was used by De Beers to make up quotas for other mines.

Analysts said sentiment on the stock market was strongly against De Beers, based on worries about the diamond market. This had seen the market placing a zero value on De Beers diamond interests.

One analyst said De Beers shares had looked cheap since falling below R100 but market sentiment remained negative.

De Beers cut in dividends on the cards

CT BR 7/3/95 (216)

By Derek Tommey

Business Report Staff

Julian Ogilvie Thompson, chairman of De Beers, could have some bad news for his shareholders this afternoon when he announces the company's results for the 1994 financial year.

The bad news could include a reduction in De Beers' earnings — and possibly a slight reduction in the dividend.

It has been know for some time that the diamond market is being unsettled by large-scale Russian sales outside the Central Selling Organisation — the organisation created by De Beers to control diamond sales and maintain a stable market.

But on Friday, Anglovaal made a shock announcement that its royalties from De Beers' Venetia mine for the six months ended February had almost halved.

Instead of receiving the R34,5 million it was paid in February last year, this February it received only R18,8 million.

However, the news from Venezia has not effected estimates of De Beers' worth.

For some time the price of De Beers' shares has virtually excluded its diamond interests, said Rodney Yaldwyn of Simpson McKie. When you buy De Beers shares you are getting the diamonds side of its activities for virtually nothing. Since Russian sales started to become a problem in July, last year, De Beers' share price has fallen almost a third — from R120,75 to R81 before recovering in the past few days to R82,50.

New diamond mining plans on the west coast

(216) BD 7/3/95

EDWARD WEST

CAPE TOWN — Zenith Concessions, the new west coast diamond mining company to be listed on the venture capital board early next month, plans to use offshore shallow water mining techniques never seen before in SA.

Zenith chairman Eric Alexander said in an interview yesterday that in contrast to the converted fishing trawlers traditionally used to exploit shallow sea concessions, Zenith planned to use high speed, light weight fibreglass boats to achieve a target of 1 000 carats a month in the first year of mining operations.

Climatic conditions on the west coast are such that there might be some 30 perfect weather days in a year. Approximately 180 days of diving operations in a year is considered a norm among shallow water offshore mining companies

The two catamaran-hulled boats on order would allow Zenith to reach diving sites considerably faster than trawlers and allow the company to beach the boats near diving sites at night instead of having to sail all the way back to port, thereby lengthening diving times.

The lightweight boats, capable of speeds of up to 25 knots, would also enable diamond exploitation to take place in shallower waters than the heavier trawlers. Lighting for calm weather conditions at night would be utilised.

The maximum productivity gain, however, would be achieved by employing a floating breakwater — never before used in SA but proven to be successful elsewhere in the world — which would allow diving virtually every day.

Alexander said the company planned to have six boats operating offshore by mid-1996. A vessel was currently targeting potential diving sites.

Zenith has acquired the working rights to two shallow water concessions off the west coast, a dunal concession near the mouth of the Spoeg River and two offshore concessions of a more speculative nature in Namibia, said Alexander.

He said that unlike other offshore mining companies, Zenith did not intend purchasing concessions, but instead planned to invest in mobile equipment which could be used on concessions where working rights could be obtained from concession holders.

Alexander said Zenith planned to help establish a lobbying group of independent small offshore mining operators to convince government to allow mining on concessions which were being underutilised by the concession owners.

"Large concession owners like De Beers contribute little to the local Namaqualand economy and don't allow small independent operators onto their concessions. Full exploitation of the west coast offshore mining areas would have less than a 1% impact on the diamond market," he said.

De Beers terminates Canadian venture

(216)

MICHAEL URQUHART

DE BEERS has terminated its Yamba Lake joint venture diamond exploration agreement with Canadian exploration companies Mill City Gold Mining and Tanqueray Resources. BD7/3/95

The joint venture had been exploring a number of kimberlites in the Yamba Lake area in the Northwest Territories of Canada. Yamba is a 61 757ha claim in the so-called Corridor of Hope which runs for more than 150km and in which nearly 100 pipes have been found.

De Beers reached agreement in principle with the two exploration companies in July to develop a C$500m mine if the project proved viable But a 24,5-ton bulk sample shipped to SA had proved disappointing, a De Beers spokesman said yesterday. De Beers had decided after evaluating the results of the sampling and airborne geophysical surveys that the project did not

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De Beers

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merit additional exploration.

The spokesman said the company's Canadian exploration subsidiary, Monopros, continued the exploration of other areas in the Northwest Territories. De Beers had staked close to 3-million hectares in the region.

Meanwhile, Broken Hill Proprietary, De Beers' major competitor in the race to develop the first diamond mine in Canada, recently completed sampling on some of its Lac de Gras kimberlites in the Northwest Territories. The average value was \$126/ct at a grade of 0,27ct/ton for the Fox pipe, \$132/ct at a grade of 0,93ct/ton at the Panda pipe and \$44/ct at 3,3ct/ton for the Misery pipe.

An analyst said it looked like BHP would be the first to develop a diamond mine in Canada. As BHP was unlikely to sell its diamonds through the Central Selling Organisation, this would see De Beers' grip on the world diamond market slip further, he said.

De Beers holds its ground

(216) Star 8/3/95

■ BY DEREK TOMMEY
MINING EDITOR

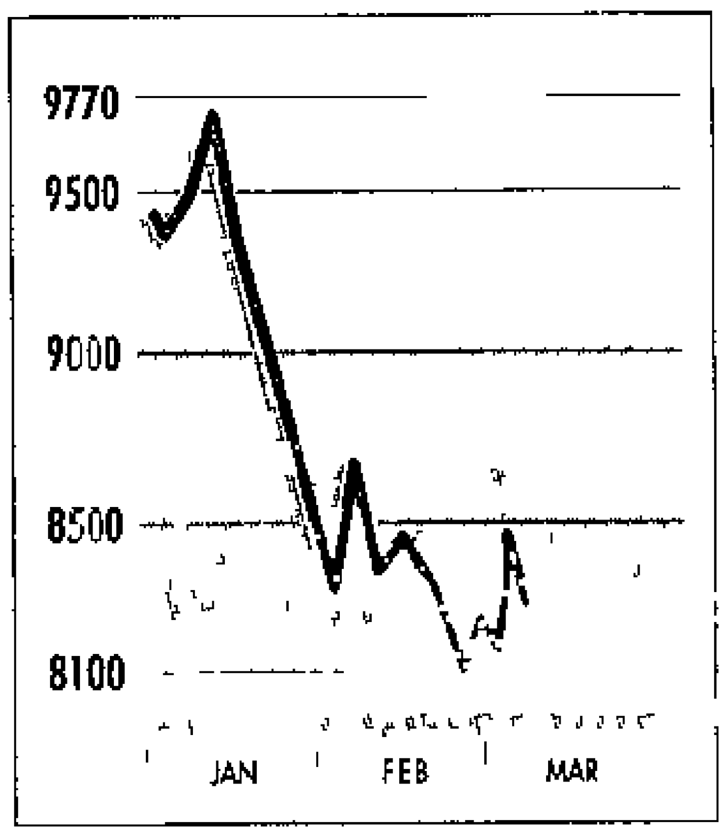
Despite huge and disruptive Russian diamond sales running to hundreds of millions of dollars outside of the Central Selling Organisation last year, the diamond giant De Beers managed to limit the decline in its earnings to only 7 percent

Its attributable earnings in dollar terms declined from 595 million to R555 million In rand terms, attributable earnings fractionally increased from R1,955 billion to R1,960 billion

De Beers has declared a final dividend of 50,3 US cents (1993, R51,7 US cents) making an unchanged total payment of 84,4 US cents for the year

South African shareholders will receive a final dividend of 178,6c (175,8c) making a total

De Beers share price



dividend payment of 299,6c for the year, an increase of 4,5 percent on the 286,8c paid last year

However, while De Beers' dollar earnings were down slightly, the company shows a stronger balance sheet with net current assets rising from 71 million in 1993 to 327 million last year.

Chairman Julian Ogilvie Thompson says world-wide retail sales of diamond jewellery in 1994 rose by around 4 percent in dollar terms to a new record

Nevertheless, CSO sales of rough diamonds were some 3 percent lower, at 4,25 billion

The prime reason for the lower rough diamond sales was the continued and increased sales of rough diamonds by the Russians outside the CSO quota arrangements

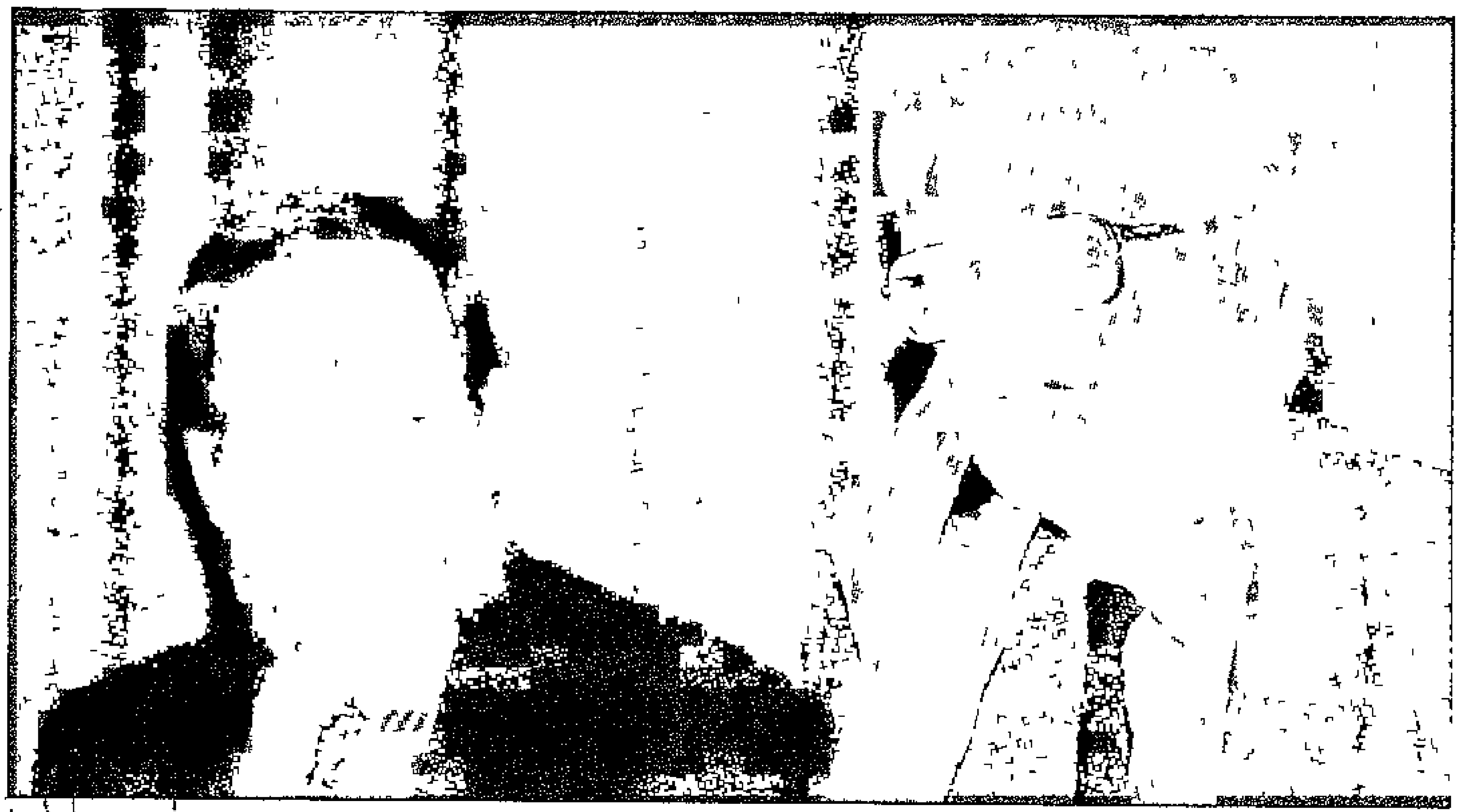
These sales amounted to many hundreds of millions of dollars from stocks rather than current production This caused uncertainty and lack of profitability in the cutting centres

Ogilvie Thompson said discussions were continuing with

Ogilvie Thompson

the Russian authorities He hoped they would recommit themselves to the CSO and its one-channel selling system and renew their successful co-operation with De Beers, which has run for over 30 years

DIAMOND DEBATE



REARGUARD ACTION *Nicholas Oppenheimer (left) and Julian Ogilvie Thompson discussing the limited decline in the De Beers earnings with analysts and the press yesterday* PHOTO ETIENNE ROTHBART

De Beers holds its ground

(216) CT(BR) 8/3/95

By Derek Tommey

STAFF REPORTER

Despite huge and disruptive Russian diamond sales running to hundreds of millions of dollars outside of the Central Selling Organisation last year, diamond giant De Beers managed to limit the decline in its earnings to only 7 percent

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See Page 2

Russian gem sales slated by De Beers

216 BD 8/3/95

MICHAEL URQUHART

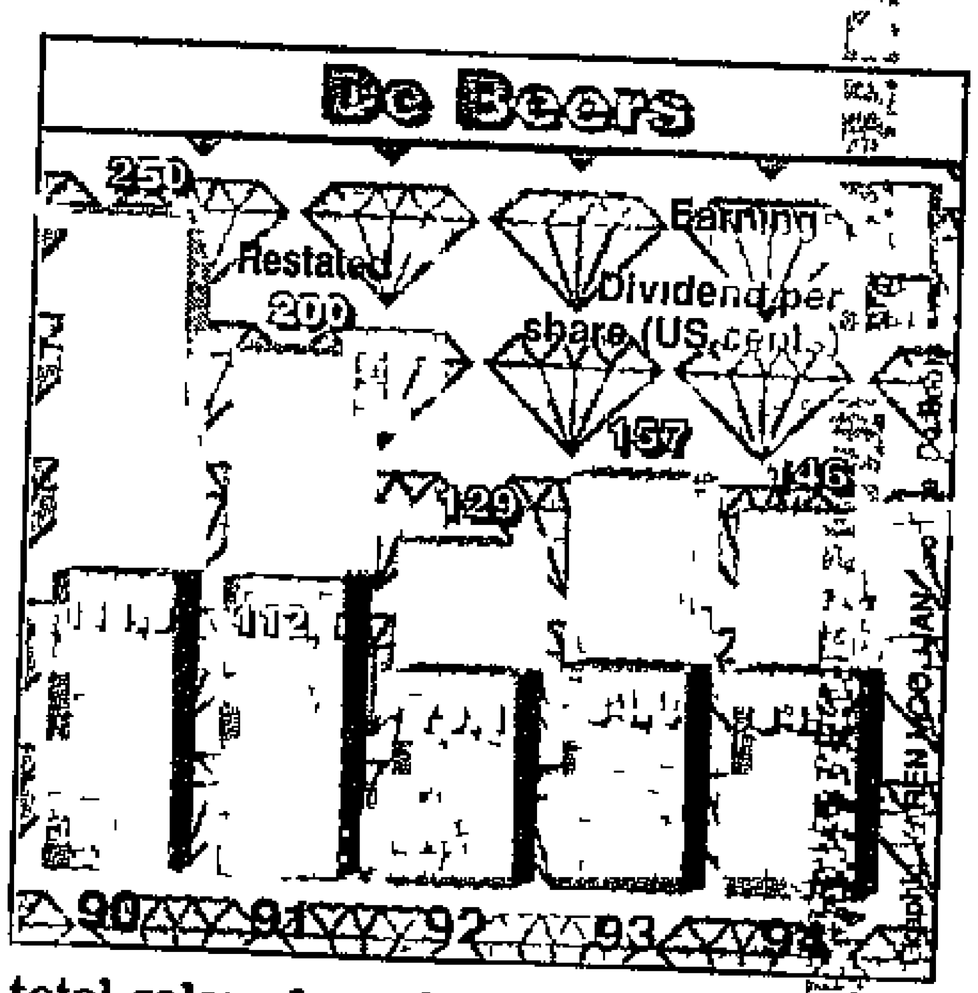
RUSSIA's sales of rough diamonds outside its agreement with De Beers' Central Selling Organisation made a mockery of the single-channel marketing system, CSO MD Gary Ralfe said at the presentation of the group's annual results yesterday

De Beers was "not happy" with the risk of becoming the residual buyer of Russian diamonds which had been rejected by the open market. Although Ralfe was not prepared to put a figure on Russian sales outside the CSO last year, he did not take issue with estimates of $700m to $800m

The Russian sales were the main factor behind the fall to $555m in De Beers' earnings for the year to December ($595m in 1993) The depreciation of the rand meant rand earnings were marginally up at R1,96bn (R1,955bn) This translated into earnings a share of 516c (514c) and equity accounted earnings of 769c (754c). Dividends were maintained in dollar terms at 84,4c, which meant they increased slightly in rand terms to R2,99 (R2,86).

Ralfe estimated total Russian sales, including polished goods and sales to the CSO, at more than $2,5bn. This was well in excess of Russia's $1,2bn production, which meant the Russian stockpile was being reduced at a "substantial" rate

Even though economic recovery in most major markets saw global retail sales of diamond jewellery increase 4%, the CSO's



total sales of rough diamonds fell 3%.

Ralfe said Russia was also attempting to increase production of polished goods by entering joint ventures with foreign cutters to set up factories in Russia. However, most of the diamonds sold to these joint ventures were being exported in unprocessed form. Any new agreement with the Russians would have to take into account the increase in polished goods. The CSO was negotiating with Russian diamond producer Almaz Rossii-Sakha in an attempt to stem the flow of Russian diamonds onto the market

De Beers chairman Julian Ogilvie Thompson said there was a possibility of

☐ To Page 2

Gem sales

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☐ From Page 1

the CSO going into full partnership with the Russians, which could include representation on the organisation's board.

Illicit Russian sales continued in the current year, with cheaper goods flooding into Antwerp and some 10ct or bigger stones making their way to New York. Ralfe said this had upset the confidence which returned to the market with improved sales during the Christmas period

Ogilvie Thompson, on the termination of the Yamba Lake joint venture in Canada, said he did not view new production from Canada as a threat to the CSO's single-channel marketing system. The overwhelming feature of Canadian discoveries was that they were small.

De Beers' Namibian operation, CDM, was restructured last year to give the Namibian government a 50% stake. The new company, Namdeb, had not been consolidated in the income statement, which meant results were comparable only at attributable earnings level. Namdeb was accounted for in the diamond account, which Ogilvie Thompson said partly explained the $103m fall in the account and the $64m drop in De Beers' tax bill.

Women's best friend more popular than ever

(216)

CT 14/3/95 (BL)

Maverick Russian producers have not removed the sparkle from De Beers' status as super-salesman of the diamond world

BY DEREK TOMMEY
MINING EDITOR

De Beers' fight with Russian diamond producers has overshadowed its remarkable progress in getting the world to buy more diamonds

Last year sales at retail level were worth $45 billion, said Jeremy Pudney, in charge of marketing diamonds for the Central Selling Organisation.

According to preliminary estimates, diamond sales rose four percent in value and five percent in terms of carats. This compares with a two percent increase in value in 1993.

He said there had been a slight change in the sales mix last year Most markets showed increased sales of the more expensive pieces

Fashion conscious American men and women now have diamond and gold wedding rings as well as engagement rings, Pudney said

Diamond sales in most markets started off slowly last year but picked up very well towards the end of the year The main exception was Germany

In spite of Germany's strong economy, the dollar value of sales was down five percent "The German consumer does not have that 'feel good' factor They have the disposable income but they are nervous Unemployment is still high and there were significant tax increases last year", Pudney said

For the first time in two years, Japan also showed an increase in sales in the last three months of the year

American sales were up four percent in pieces, and seven percent in retail value

Because of the change in the mix, the diamond value could be up eight percent, while carats sold could be up nine percent

Overall diamond jewellery sales in the American market were worth $13 billion

Anniversary

Sales of engagement rings were constantly high, with average prices up 14 percent

Sales of anniversary bands rose 15 percent, ten-year wedding anniversary pieces rose 20 percent and 25-year anniversary pieces rose 14 percent

Diamond jewellery sales to the married market increased, as did the average price It is estimated that more than 11 percent of American women acquired a new piece of diamond jewellery last year

Sales of tennis bracelets — usually gold bracelets encrusted with diamonds — went up 38 percent

Diamond jewellery in the male market also increased in price

Pudney said that sales of pure diamonds maintained market share against cubic zirconiums

Elsewhere, sales of diamond pieces rose six percent in Canada but decreased about five percent in Mexico

Japan, a critical market for the CSO, experienced good sales in the first three months of 1994

300 — 363

Russians won't toe De Beers' line

(216)

wm(BM) 16/3/95

Jacques Magliolo

DIAMOND giant De Beers released its unaudited results for the year to December 1994 this week and promised investors virtually unchanged earnings per share and a mere 4,5 percent increase in dividends.

It seemed that the sole focus of the presentation was to voice their annoyance at Russia's refusal to adhere to signed agreements, which require that all participants sell their diamonds to the De Beers Central Selling Organisation (CSO)

CSO managing director Gary Ralfe asserted that Russia's sales of rough diamonds outside its agreements made a complete mockery of the single-channel marketing system According to De Beers estimates, Russian rough diamond sales jumped by 30 percent last year to about R7-billion, but only 50 percent of these were sold through the CSO

The remainder of the diamonds were sold to dealers in Antwerp, the Middle East and India.

De Beers chairman Julian Ogilvie Thompson said that, while worldwide retail sales of diamond jewellery in 1994 rose by four percent (in dollar terms), CSO sales of rough diamonds fell by three percent However, he said discussions with Russian authorities were continuing

Despite the furore over these sales, De Beers' financial profile improved during the period under review with a stronger balance sheet and substantially higher net current assets, up by 360 percent to $327-million.

Although the sale of rough diamonds affected De Beers' Diamond account, which showed a fall of 14 percent to $624-million, the company's income statement displayed a 14 percent rise in investment income to $196-million

Negative factors, such as a fall in interest income (down 17 percent), resulted in a 6,7 percent lower attributable earnings However, a depreciation of the rand during the period under review caused earnings (in rand terms) to remain unchanged

More good news for the diamond conglomerate is that negotiations with the Namibian government over the future of CDM were brought to a successful conclusion last year, culminating in the reconstruction of the company as Namdeb Diamond Corporation — De Beers is an equal partner with the Namibian government

A real gem: Former De Beer's chairman Harry Oppenheimer examines the 27-carat Centenary diamond held by Julian Ogilvie Thompson

COMPANIES

Mining giant dazzled by marine gems

ST(BT)19/3/95

(216)

By JEREMY WOODS

BHP, the world's largest mining conglomerate, with a market capitalisation of R85,8-billion, is eyeing Ocean Diamond Mining's West Coast lease areas as well as its marine technology.

A cautionary last week said "discussions are taking place between ODM and the BHP which if successfully concluded, may affect the price of ODM's ordinary and preference shares and Benguela Concessions' ordinary shares".

Shareholders were advised to exercise caution in dealing in both shares until a further announcement was made "in due course"

Industry sources say BHP, which entered the West Coast marine diamond rush via a joint venture deal with Benguela Concessions, is now looking to put some of its muscle behind ODM, the JSE-listed independent marine diamond producer

"ODM is furthest down the track with proven technology for mid-water diamond mining It is also the only mining company, apart from De Beers, producing meaningful quantities of marine diamonds," says Chris Niehaus, a director at stockbroker Simpson McKie.

Ivan Prinsep, the chairman of ODM said on Friday "Talks are continuing and I cannot comment further about them

"However, it is well known that the Namibian authorities will shortly be issuing new prospecting licences and it is generally believed that the ODM group is in line for some important new extension areas to the Guano Island waters in view of ODM, through its wholly owned subsidiary Eiland Diamante, having been the first applicant for these areas.

"The Namibian authorities have stated that applicants must be dealt with in priority to the dates of their applications, so it appears to many that ODM cannot be neglected in favour of newcomers."

Last year ODM raised R60-million for the purchase of a new mining ship and had its mining vessel converted for full-time sampling

Both vessels have undergone drydock conversion in Cape Town's harbour and are now ready to sail

ODM has no debt and some three years of diamond reserves. With one vessel on full-time mining and the other on full-time sampling, the company looks set to establish record revenues.

In 1991, ODM entered into a joint venture with Benco, which paid ODM some R3,5-million and undertook to spend R20-million on exploring two of ODM's lease areas.

ODM remains the leaseholder and the exploration work is being funded by BHP, which formed a joint venture with Benco after its commitment to ODM.

Since then, BHP, which has already started its offshore work with a large sampling vessel, has entered into a deal with Diamond Fields Resources, a Canadian company with a Namibian concession

"BHP is clearly trying to expand its area of operation on the West Coast marine diamond fields and ODM has some very interesting lease areas as well as the technology and knowledge to mine them. ODM looks in fine shape and now would be the perfect time for BHP to strike a deal," said an industry source.

ODM shares were trading on Friday at R2,80 compared with a historical high of R5,90 a year ago.

De Beers polishing its Asian markets

(216) CT 20/3/95

BY NEIL BEHRMANN
LONDON CORRESPONDENT

De Beers is planning a major marketing campaign in Asia over the next few years

This was the message in a speech delivered by Keith Ives — who was De Beers's Central Selling Organisation's director of research and information for more than two decades — at a conference in Perth, Australia, organised by Louthean Publications

Ives, who recently retired, is a consultant with De Beers

Global demand for polished diamonds used in jewellery rose by about 5 percent last year, said Ives, with east Asian demand, including China's, increasing by almost 9 percent

Worldwide sales of polished diamonds used in jewellery are worth $9 billion and De Beers estimates they will surge to $13 billion by the turn of the century.

It is hardly surprising that De Beers will be spending an increasing proportion of its $180 billion advertising budget on Asia

Including Japan, Asia accounted for 45 percent of the value of diamond jewellery sales last year. East Asian demand excluding Japan surged by 70 percent in the past seven years, phenomenal growth by any standards

In terms of value, the US is the biggest diamond jewellery market with a share of 29 percent Yet it is now followed by east Asia with a 23 percent share, followed by Japan with 22 percent and Europe with 13 percent

Separately, officials in De Beers's research division said that by the turn of the century, China would account for a significant proportion of the Asian diamond market.

The company projects that China's demand for polished diamonds will jump to around $400 million by then from present levels of $110 million.

Ives also estimated that diamond demand had overtaken production. The market would have been a lot healthier, he said, had the Russian treasury not directly sold around $800 million of rough diamonds to traders in 1994

These sales were in contravention of Russia's agreement with De Beers In terms of that accord, 95 percent of Russian diamonds should be sold to the CSO

Ives is cautious about short-term prospects for the market, yet given growth in consumption and the depletion of the Russian stockpile, he is confident about medium-term prospects

Ives could not or would not disclose De Beers's estimates, but market guesses ranged between $3 billion and $8 billion, he said.

Diamond company shares surge

(216) BD 24/3/95

MICHAEL URQUHART

DEALS under way in the diamond exploration and marine diamond sectors saw share prices for these companies continue to surge yesterday.

Broadacres and Benguela Concessions, both involved in talks with other parties, were two of the biggest climbers on the JSE Broadacres shares jumped 11,1% or 25c to a new high of 250c, while shares for Benco climbed 4,4% or 15c to 350c.

Although Ocean Diamond Mining was unchanged yesterday, its price of 330c was 50c up on its close on Friday last week One analyst said there were a number of positive synergies which could be tapped if Ocean Diamond Mining (ODM) and Benguela Concessions merged or formed a joint venture.

He said the two companies had different concessions and technologies which could be merged to strengthen both

But another analyst described the shares as "highly speculative", especially Benco, which had yet to prove major resources. Benco had the backing of international mining house Broken Hill Proprietary (BHP), but the continuation of this backing depended on Benco proving a resource big enough to interest BHP

Benco chairman John Gurney said last year BHP would be interested in going into mining only if a prospect had the potential to produce 1-million carats a year

Shares for Broadacres, a small diamond mining company operating in the area of the Orange River, also surged yesterday Transhex, another diamond mining company, announced last month it was acquiring controlling shareholder Shui Lung Investments' 70,6% stake in the company.

ERNATIONAL

De Beers appears to have earned another reprieve

(216) CT(BR) 10/4/95

By Richard Dowden

THE INDEPENDENT

A executive of De Beers has been trying to persuade the vicar at his Surrey church to pray for peace in Angola

Every Sunday, the congregation prays for Botswana because some parishioners have connections with an aid project there.

Botswana, the De Beers executive said, no longer needed God's help.Thanks largely to its diamond mines, which it owns jointly with De Beers, Botswana has one of the highest per capita incomes in Africa and enough foreign exchange reserves to cover its debt 10 times over On the other hand, despite even bigger and better diamond mines than Botswana, as well as huge oil reserves, Angola is a broken country

With inflation at 1 000 percent, a £6,9 billion debt and most of its revenues mortgaged for years ahead for arms purchases, it could do with divine intervention

The last peace agreement in Angola in 1992 created a diamond rush and Angolan rough diamonds flooded the open market in Antwerp

De Beers, which controls the price of diamonds by buying up any surplus, spent about £650 million soaking up the Angolan production. In the worst week, it spent £25 million The company was forced to announce it would buy only 75 percent of producers' output that year and threatened a cut in its dividend

However, war and the rainy season eventually sent the diggers fleeing the diamond zone, and the spree died down It has never restarted

In the meantime, Russia has been causing De Beers serious problems In 1990, in return for a $5 billion loan, the Russians agreed to sell the Soviet Union diamond stockpile, as well as future production, to De Beers

Under the agreement, De Beers bought about $1 billion worth of diamonds from Russia, but the Russians never sold their stockpile It is now reckoned to have been worth about $8 billion in 1990, more than twice De Beers' stockpile.

In recent months the Russians have also been selling from their stockpile to the open market Estimates of the value of the diamonds sold range between $600 million and $1,2 billion.

But according to Yorkton Securities, by 1997 the Russian stockpile will be exhausted, new mines will not be on stream, and the market will have fallen into deficit. Yorkton reckons that De Beers will then be able to lift the quotas and raise prices

Once again, De Beers seems to have escaped.

De Beers explains the pressure on diamonds

(216)

Star 19/4/95

■ BY DEREK TOMMEY
MINING EDITOR

Shares of the diamond giant De Beers have been under pressure for several months, seriously troubling its shareholders

The reason for this slide emerges from the statement to shareholders by De Beers chairman Julian Ogilvie Thompson published today

According to figures given in his statement it seems that almost 40% of Russia's sales of rough diamonds last year bypassed the Central Selling Organisation (CSO) — although Russia is contractually bound to sell 95% of its diamonds directly to the CSO

The CSO is the body set up by De Beers to stabilise the diamond market in the interest of producers, the trade and consumers

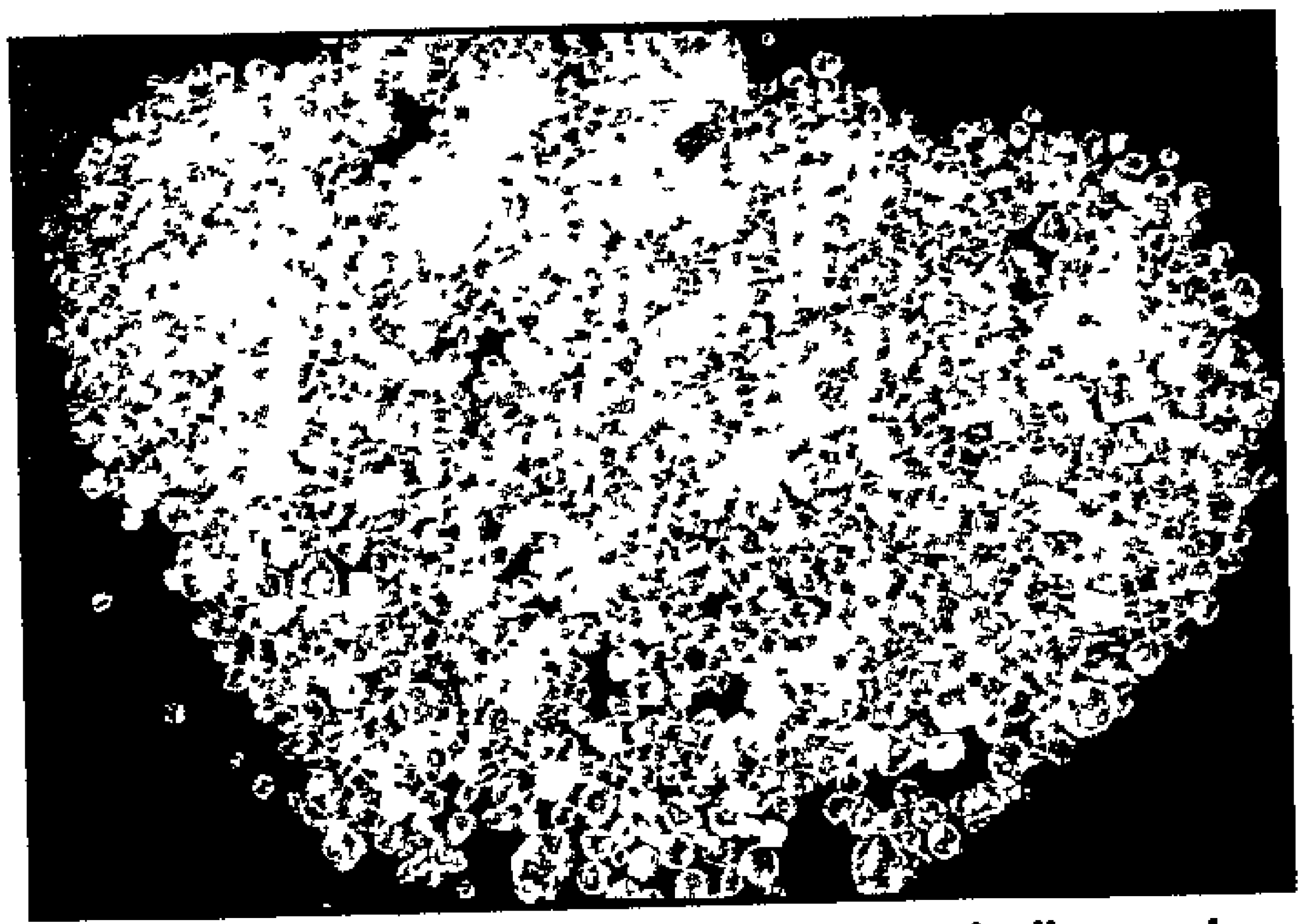
Ogilvie Thompson says the diamond trade estimates that Russia sold rough diamonds worth $700-million to $800-million directly to the market in 1994. However, he points out that most of these diamonds came from stock and not current production which suggests that this level of sales cannot be maintained indefinitely

But one Russian organisation, Almazy Rossii-Sakha, the Russian diamond company which operates the mines, adhered to the CSO agreement and its sales to the CSO were in excess of $1,0-billion

Ogilvie Thompson says the Russian sales unsettled the cutting centres and accentuated their lack of profitability.

They also hit other diamond producers as they prevented the CSO from increasing quota limits from the current 85% of proven capacity to 100% and also prevented a price increase which would have benefited all producers

Ogilvie Thompson said the CSO has repeatedly expressed its concern to the Russian authorities that Russian sales outside and additional to the agreed quota are detrimental to other producers and are destabilising the market.



Rough riches . . . an assortment of rough diamonds.

Other interested parties have expressed their concern to the Russian authorities as well He says it is widely recognised, and often publicly stated in Russia, that co-operation between De Beers and Russia is in the interests of both parties and indeed generally

"No doubt, that is why Russia has cooperated so successfully with De Beers for more than 30 years While we are not satisfied with the existing arrangement, we will continue to negotiate, confident that cooperation will extend beyond the Expiry of the current contract at the end of this year."

Apart from the Russian sales, the diamond market had a good year, he indicates.

The CSO sold rough diamonds worth $4,250-billion, which was only 2,7% less than in 1993. "This is a tribute to the resourcefulness and the underlying strength of the market"

While smaller and cheaper categories of diamonds remained in surplus, demand for the better qualities was encouraging and confidence began to return to the market towards the end of the year.

ers of Durham, North Carolina. This is a performances

Russian diamond sales a thorn in De Beers' side

(216) BD 19/4/95

MICHAEL URQUHART

THE stability, confidence and prosperity of the diamond industry would depend on continued co-operation between the major producers and an orderly reduction of stocks in Russia and elsewhere, De Beers chairman Julian Ogilvie Thompson said in his annual review

Estimated Russian sales of $800m outside the Central Selling Organisation (CSO) last year had unsettled the diamond cutting centres and accentuated their lack of profitability.

The CSO was continuing to restrict its sales and was tailoring the boxes offered to sightholders as closely as possible to their immediate requirements.

Although smaller and cheaper categories of diamonds had remained in surplus in 1994, demand for the better qualities was encouraging and confidence had carried over into the January and February sights However, sentiment had recently been affected by renewed sales of Russian rough.

Ogilvie Thompson said the strength of the retail diamond market should have allowed the delivery quota on producers to be lifted above 85%

However, the additional sales by Russia had rendered this — and a price increase — impossible.

De Beers continued to work closely with Almazy Rossii-Sakha, the company which operates the Russian diamond mines.

Preliminary figures suggested that world sales of diamond jewellery rose 4% in dollar terms last year The value of diamond content in the jewellery increased 5%

The biggest increase came from east Asia, where sales rose 8%. Sales were up 7% in the US and 3% in Japan, but were down 1% in Europe.

Spending would be increased in east Asia, while six new marketing areas were being developed in China. Total spending on marketing this year would be approximately $180m.

EXECUTIVE SUITE

DE BEERS

Near the top of the range

FM 21|4|95 (216)

In retrospect, the diamond giant's annual report (for financial 1994) couldn't have come at a better time The counter has moved R13 in just six weeks from its March 9 low of R79,50 — a level last seen in mid-1993 — to R92,50 now

The price and its movement are symptomatic of a bewildering array of opinions to emerge from analysts in Johannesburg and London Overseas brokers are largely telling clients to sell — or to stay neutral Johannesburg brokers, again risking a generalisation, are taking a mildly optimistic view and some have suggested cautious buying for a few months The recent surge in the share price, though, probably takes it close to the ceiling above which local brokers will recommend selling

Ogilvie Thompson *balance sheet has been strengthened*

The essential problem facing De Beers investors and analysts is that the risks inherent in the diamond business have become too big recently to assess with any certitude The three principal areas of concern are the imponderable Russian wild card, whether Japan will resume its previous growth pattern and the impact of illegal Angolan production now that hostilities have subsided so markedly

Over the past four years, the diamond business in De Beers' portfolio has steadily been downrated Reasons aren't hard to find there is plentiful supply reaching the cutting markets, an ever-growing portion of it outside De Beers and the Central Selling Organisation's ambit of control Some of this is due to persistent Russian cheating, but in many other cases it is because small, sometimes good quality mines have chosen to remain outside the CSO's safety (and control) net, preferring to take their chances with global supply and demand patterns

Another aspect of the business is that it cannot be switched on and off at will to match demand Mines do not respond to that sort of treatment Still less do their owners, many having nothing in common with De Beers other than the pursuit of an orderly market This sits uncomfortably with analysts who base their buy argument on the premise that De Beers' diamond business is valued at almost nothing

When the counter was at its March low it was suggested that the group's investment portfolio accounted for almost the entire share price, barring perhaps R2-R3 Following the recent move in the price — and applying the same rationale — it now appears the market is valuing the diamond business at about R10 a share All this suggests the business is cheap, but some things can stay cheap for a long time

One analyst says he believes the risk attached to De Beers is not so much price as time That is partly supported by the share price performance over a long period For many years the price languished below R10 (it peaked above R10 in mid-1969) until it finally broke out in 1985, then there was no stopping it as it galloped to a new high in mid-1990 of just more than R100 Since then, it has seesawed but appears caught in a range between R80 and R96

Despite this gloom, there are some indications that many of the negative aspects are receding There is a perception — wishful though it may be — that the Russians are beginning to exhibit a willingness to be more responsible This may be mostly a case of analysts looking for reasons to show greater confidence De Beers is itself encouraging the view to some degree when it describes the eagerness of the Russian mining company Almazy Rossii-Sakha to work closely with the CSO (as distinct from the bear-headedness of the central Russian sales organisation, Komdragmet) And there is some evidence of a resurgence in Japanese economic growth and in diamond purchases

All this lends weight to De Beers' financial position The rough stockpile now stands at a record US$4,4bn (compared with sales last year of $4,3bn) but this gives no hint of the size of on-mine stocks, which may be large at Venetia and Debswana

However, borrowings of $1,3bn compare favourably with shareholders' interests of $8,4bn Gearing is a modest 16% Chairman Julian Ogilvie Thompson notes that net gearing has fallen and the balance sheet has been strengthened (De Beers' annual report will be reviewed in the next issue)

Nevertheless, the warning is evident many brokers believe the share is fully priced around R95 That is uncomfortably close "It is now a nervous yawn," says an analyst

David Gleason

UNIT TRUSTS

Probing defences

The unit trust industry continues to expand, despite a more bearish equity market In the first quarter of 1995, 13 new unit trusts were established and more than 70 000 new accounts opened, a clear indication of the industry's popularity among investors Over the past 12 months, 22 new trusts were launched, taking the total to 82

Returns which investors have enjoyed recently depend heavily on the period considered Taking a 12-month view, Association of Unit Trusts chairman Carel de Ridder says that, even though the market has been difficult in the past few months, "it is pleasing that the trusts have again outstripped the inflation rate"

Over that period — and unit trusts are always presented by their managers as being long-term investments — their performance was certainly favourable In the 12 months to March, general equity funds achieved a weighted average total return of 14% Inflation over the period was 9%, the JSE All Share index returned 9,4%

But the March quarter was a period of marked uncertainty for financial markets The financial rand was abolished, interest rates firmed, the gold price continued to disappoint and p e ratios on many shares were at historically high levels Leading JSE equity indices weakened or showed limited growth

In those conditions, it was almost inevitable that most unit trusts would produce negative returns over the quarter (see table). A good measure of the industry, and for individual comparisons, is how well investors were protected against the general weakness in the equity market Taken by themselves, the trusts' quarterly results may seem bleak When compared with the indices, they are encouraging

All the general equity funds did better than the All Share index, admittedly only marginally in the case of UAL The balanced/managed general funds did best, with Guardbank Stability at -1,10% and Absa Balanced -3,40% Norwich, the star performer over 12 months to December with a 50% return, was down only 3,7% for the quarter, some did better with declines of 3,51% (Standard Bank Mutual), 4,41% (Old Mutual Growth) and 4,59% (Metlife).

Among specialist funds, the industrial

Diamond war looms

WM(BM) 21-27/4/95 (21b)

Russia has threatened to pull out of the De Beers-run diamond buying and selling cartel, reports Jacques Magliolo

THE long-awaited battle between diamond giant De Beers and Russia is looming after last week s threats by the Russian government to pull out of the Central Selling Organisation (CSO)

If Russia did leave the CSO would the world diamond market suffer from a major shake-up and would it have serious implications for world diamond prices? After all, experts believe that last year Russia sold 50 percent of an estimated US$2-billion worth of polished and rough diamonds outside the CSO

The deputy head of the Russian state precious metals committee, Leonid Gurevich, says the current agreement does not reflect Russia's status as a country which possesses some of the world's richest diamond reserves and they want greater access to world markets Essentially, it wants to increase its sales outside the CSO from five percent to 20 percent

Says Gurevich "Russia is not just seeking the amendment of some provisions of the deal, it wants the whole strategy of dealing with the cartel to be reviewed "

It appears that the organisation is also not happy "The current CSO agreement with Russia expires on December 31 1995 and it is possible that De Beers could stop buying diamonds from Russia," says De Beers spokesman Andrew Cumine

While Russia wants to amend future agreements to allow it to sell greater quantities of diamonds outside the CSO, De Beers is "looking for 100 percent of Russian diamonds to sell through the CSO, plus a sales quota for Russia s existing stockpile, so that it can sell diamonds in an orderly fashion," says Cumine

"In terms of our agreement with Russia, it is the only country which is permitted to sell any quantity of diamonds outside the CSO," says Cumine He adds that reasons for this are historic and were "to allow Russia to check CSO prices against other buyers and thus make sure that the CSO was providing them with a fair deal "

At a meeting held in March CSO managing director Gary Ralfe made De Beers position on the issue clear "If the Russians would like to have a close partnership with the CSO then this should be based on the equitable principle that a 100 percent of their production should be flowing through the CSO "

At present De Beers controls 50 percent of the world's production of diamonds Russian diamond sales represent 26 percent of CSO sales

While this may be a substantial stake of the world diamond pie, Cumine believes that Russian production is not increasing Their mines are old and deep, have to be mined under extremely adverse conditions (they are based in Siberia), no new mines seem to have opened and their seems to be a lack of electrical power to run the mines

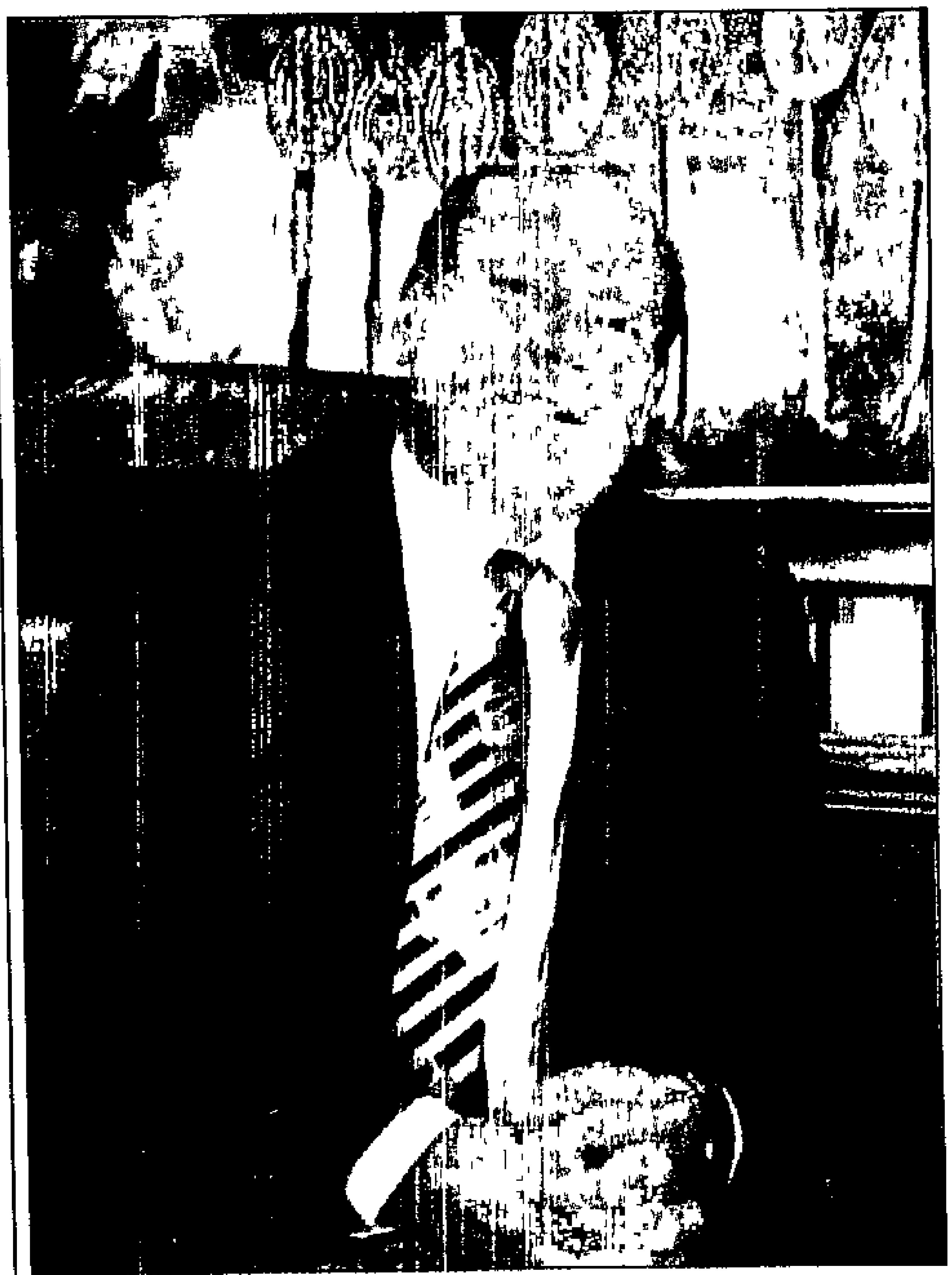
In addition to these problems, De Beers believes that even Russia's stockpile is decreasing "At present we estimate that the stockpile consists of diamonds which are more difficult to sell, such as the good quality and the smaller range diamonds," says Cumine "It is only to their advantage to sell these more difficult diamonds through the organisation," he says

> ‘Russia wants the whole strategy of dealing with the (diamond trading) cartel to be reviewed’

For a new five-year agreement, De Beers would insist on a simplification of the negotiation procedures, it would want to know how diamonds are distributed within Russia and the quantity of diamonds produced and stockpiled in that country

Analysts agree that Russia will kick up a fuss, but will ultimately agree to these terms The general consensus is that Russia needs hard currency to fund precious metals mines, social welfare, roads and such and could not afford to set up its own client base, nor do they have the necessary technical expertise to create another CSO

After all, the present agreement provides Russia with about $1-billion a year "upfront payment for diamonds, in cash," says Cumine For the present Russia is not in a position to dictate terms



Jan Erasmus: Insurance clients are dissatisfied PHOTOGRAPH THEMBA HADEBE

Prestasi to join JSE

Reg Rumney

PRESTASI Financial Services, soon to join the growing rush of companies to be listed on the Johannesburg Stock Exchange, by its own admission needs little capital expenditure

The company hasn t incurred much debt at all, and doesn't need a capital injection now So why list?

Part of the answer is that it may enable Prestasi to grow by acquisition quickly With premium income of R325-million a year, and 130 000 personal-lines policy holders, it is big already, but seems set on becoming bigger

The other part of the answer to the question is that the listing puts a ready value on the shares held by founder Afrikaans entrepreneur Jan Erasmus, and makes them more tradeable

"Since we started the company in 1972 it has grown into a pretty big business To see it go down again if the founder is not around is stupid," says Erasmus

But a listing puts Prestasi in a new

■ To PAGE B2

Zenith hopes rights offer will scoop R2m

BD 25/4/95

(216)

AMANDA VERMEULEN

NEW diamond prospecting company Zenith Concessions planned to raise R2m through a rights offer after its listing on the venture capital market of the JSE next month, MD Jason Stavely-Alexander said yesterday

The public offer of 4-million ordinary shares of 1c each at an issue price of 50c, would open today and run until May 29, when the company expected to be listed.

Together with the public offer, 4 million unlinked free options of 1c with an issue price of 75c each, exercisable untilDecember 21 1998, would be issued in a one-for-one ratio.

The company, incorporated in November last year, has as its main business diamond exploration and the development of other diamond properties.

It was involved in various projects, but would look for new viable mineral exploration and development projects.

Projects included working contracts and prospecting rights on the SA west coast, off the coast of Namibia, and the Spoeg River concession.

"The company also intends to seek out viable diamond projects and develop them for resale or maintain an interest in worthwhile projects The company will also focus on sea and alluvial diamond mining operations."

Initial output would be between 800 and 1 000 carats a month,at a wholesale price of about R700.

The company had opted for the working rights to concessions rather than purchasing concessions, as the asking price was about R7m However, working rights were subject to a 20% commission on turnover revenue, Stavely-Alexander said.

The pro-forma projections of earnings a share would be 30,93c for the year to February 1996, and 91,69c for both the 1997 and 1998 financial years The dividend for 1997 would be 30c and for 1998, 35c

Diamonds back in favour

(216) BD 28/4/95

MICHAEL URQUHART

IMPROVED sentiment towards the diamond industry had been behind the move in De Beers' share price from an annual low of R79,50 on March 9 to a Wednesday close of R100,25.

An analyst said there had been strong share buying demand in New York, based on the better sentiment, which had seen the counter rise to R102 earlier in the week.

Another analyst said that at R80 De Beers had been looking cheap, with the share price reflecting only the value of the non-diamond portfolio. The market had been giving the diamond interests a zero value rating.

The value of the non-diamond portfolio was around R88 a share, which meant the diamond interests were now trading at a premium of about 16%. Historically the premium had been as much as 100% of the non-diamond portfolio.

The higher share price valued the core diamond businesses at around R14 a share. The analyst said that with last year's earnings from diamonds at 330c, this meant De Beers' diamond interests were trading at a p/e ratio of 4,2.

Analysts said the primary reason for the recovery in the share price was better perceptions of the state of the diamond market, especially in the long term. With diamond retail demand picking up in line with world economic growth, especially in the Far East, prospects for sales were looking good.

They said the share price had also been depressed by illicit sales of rough diamonds by the Russians outside their contract with De Beers' marketing arm, the Central Selling Organisation.

The Russian sales meant De Beers' sales remained flat last year, despite a pick up in retail sales of diamond jewellery.

DE BEERS

Making sense out of silence

(216) FM 28/4/95

Activities: *Mines gem and industrial diamonds and, through the CSO, markets about 80% of world diamond production Investments include Anglo American Corp, Minorco and Amic*
Control: *Anglo American Corp*
Chairman: *J Ogilvie Thompson Deputy Chairman N F Oppenheimer*
Capital structure: *380m linked units Market capitalisation R37,6bn*
Share market: *Price 9900c Yields 3,1% on dividend, 7,9% on earnings, p e ratio, 12,7, cover, 2,5 12-month high, 12125c, low, 7950c Trading volume last quarter, 7,1m shares*

Year to December 31	†'91	'92	'93	'94
Invest outside	16,0	12,9	24,6	28 2
Diamond ind (Rbn)	—	—	—	—
Diamond stocks ($bn)	3,0	3,8	4,1	4 4
Diamond acc (Rbn)	2,2	1,9	2,4	2 2
Investment inc (Rm)	581	607	563	692
Attributable earn (Rbn)	2,1	1,4	2,0	2,0
Equity earnings (Rbn)	2,9	2,2	2,9	2,9
Attributable earn (c)	558	372	514	516
Equity earnings (c)	785	573	754	769
Dividends (c)	307,5	241,6	286,8	299,6
Net worth (c)	9528	9738	14131	16408

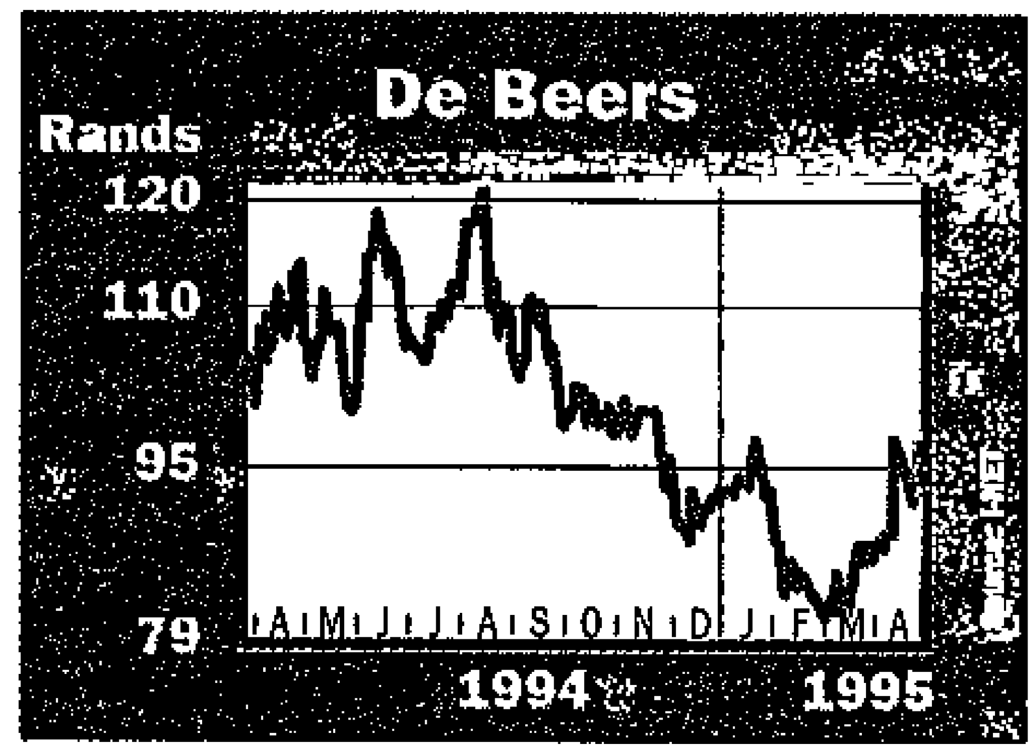
† Pro forma financial stats for De Beers Cons and De Beers Centenary

Well, no-one can say De Beers, the colossus standing astride the world's diamond industry, is not a subject of great interest to investors Its stock is heavily traded — 40m of its 380m linked deferreds were traded on the JSE alone in calendar 1994 and it is also heavily traded in London and New York In a real sense, the group is considered by many foreign investors as the leading indicator for SA

The 1994 report has little fresh to say but, to De Beers watchers, the key issues are frequently what it chooses to be tight-lipped about rather than those subjects about which it waxes eloquent The first of these this year is the size of the rough diamond stockpile and its rate of growth compared with sales

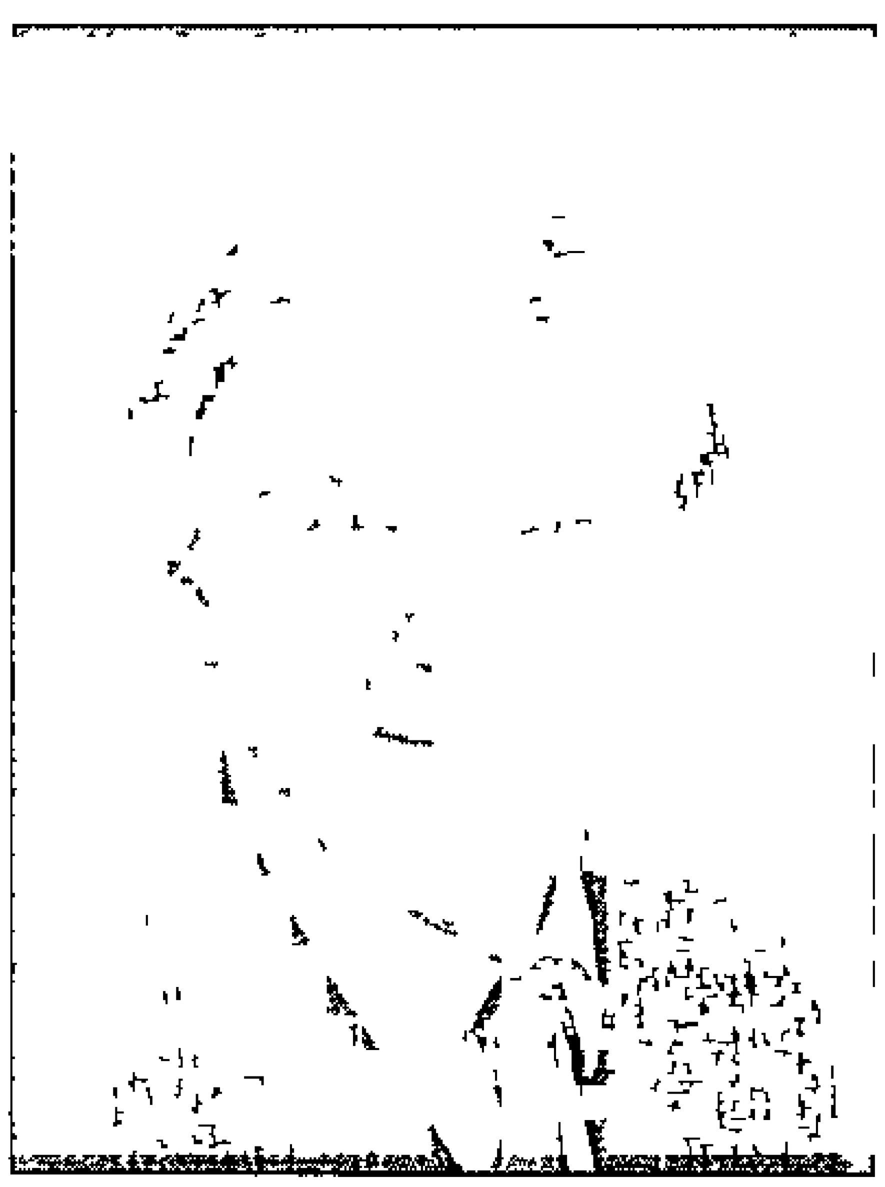
The stockpile at the end of June 1993 was valued at US$3,2bn, six months later it stood at $4,1bn, an increase of $900m Sales in first half 1993 were $2,5bn and in the second six months $1,8bn, to make a total of $4,3bn However, the stockpile actually declined in the period to June 1994 when it stood at $4bn The increase to the end of last year was also modest The stockpile now stands at $4,4bn Over the same 12 months, sales totalled $4,3bn

A number of explanations — or a combination of them — may be responsible for this, all related to Russian behaviour It is clear that De Beers bought little from Russia in the second half of 1994 The reasons may be that Russian offerings were of an inferior quality, simply weren't being shown to the Central Selling Organisation (CSO) or were shown at prices De Beers considered much too high



This kind of speculation and a concentrated look at the stockpile leaves out one important factor rough stocks held on De Beers-managed mines (such as Venetia and the Debswana operations) may have increased sharply One analyst thinks these may be as high as $1bn That adds a quarter to the total value of stones locked up in De Beers' vaults

Much emphasis is placed in world stock markets on the nature and severity of the continuing battle with the Russians For the CSO, MD Gary Ralfe — reportedly a man attracted by the sound of far-off gunfire — leads the team in what has turned out to be an attenuated, probably exhausting, series of inconclusive negotiations



CSO's Ralfe *marching to the roll of distant drums*

The issue is really simple Its essence is De Beers' famous single-channel marketing system, in existence now for more than 60 years, which has frequently inspired the pejorative accusation that it operates a "monopoly" Through the CSO, De Beers seeks to buy from producers and sell to the world cutting trade, a large portion — the biggest segment — of rough diamonds This involves complex agreements with producers, relating to quota systems and pricing mechanisms

The Russians, for example, through their principal centralised State selling organisation, Komdragmet, hold a 26% quota in the CSO, which is substantial and derived from their ability to supply large quantities of high-quality gem diamonds

Russia's agreement with the CSO expires at the end of this year The Russians have made it plain they want — deserve, are entitled to — a bigger share If the CSO caves in, it must be at someone else's expense — Botswana, Australia, even SA? But why should these countries back off because the bear is beating its breast? This is Ralfe's conundrum

The guessing is that it will go down to the wire Only at midnight on December 31 will a truce of sorts be struck, leaving many loose ends untied There are, of course, innumerable ways of skinning the cat and these must include Russian representation on the CSO's board, perhaps even on De Beers' Investors are watching these developments with sharp eyes because a satisfactory outcome is loaded with import for international diamond market stability and for De Beers' long-term future

The second issue of importance is De Beers' balance sheet This has strengthened substantially Net borrowings now stand at $961m, evidence they may have peaked They are not particularly large anyway, given the size of shareholders' interest, but it always helps to have dry ammunition around as the Russian winter approaches

Third is the little matter of sales during 1995 Current evidence points to lower CSO sales in the first six months — perhaps down as much as $100m-$150m on 1994

Yet stockbroker G O'Flaherty analyst Des Mayers believes the second half could be substantially better than in 1994 He expects EPS to improve year-on-year by about 15% in rand terms That suggest EPS for 1995 of about US152c (R5,87), assuming an average rate of $/R3,85

Mayers is one of those analysts who believes De Beers buyers are getting a bargain because the diamond business is effectively valued at almost nothing now "We are stuck in a narrow trading range (R90-R99) If the Russian impasse is settled satisfactorily, this share could easily move to about R115"

His enthusiasm is not shared, however, by many others, notably London brokers and institutions who remain cautious and sceptical On balance, and given the many imponderables, it is probably safer, though unexciting, to sit quietly on the sidelines

David Gleason

(216)

Moonstone in SA deal

BD 5/5/95

PERTH — Australian diamond explorer Moonstone Diamond Corporation said it had joined an SA beach diamond prospect with potential reserves of more than 1-million carats.

Moonstone said it had entered an agreement with Zenith Concessions, an SA company seeking a listing on the JSE, to acquire a 60% interest in the prospect located on a farm known as Spoegriver Uitspanning.

The prospect is adjacent to Consolidated Diamond Mines' Mitchell's Bay mine in Namaqualand on the west coast, Moonstone said

The prospect had an estimated potential diamond resource of around 1,2-million carats, with an estimated 80% of the stones gem quality.

The prospect consisted of a beach area known as the Admiralty strip and encompassed Mitchell's Bay at the mouth of the Spoeg River, running southward for 3km

The project area was owned by a farmer who had agreed to allow Moonstone-/Zenith to mine and recover diamonds from the concession in return for a 10% royalty.

Moonstone's exploration director, Maureen Muggeridge, said the concession represented an excellent opportunity to establish cash flow to help underpin the company's operations as well as provide entry to other prospects in the region.

To earn its interest, Moonstone had agreed to provide up to A$74 000 for the purchase of two shore-based recovery units. Moonstone would also provide working capital of A$23 000 to establish a camp, security facility and plant.

Further expenditure would be funded in a ration of 60 to 40 by Moonstone and Zenith respectively.

Moonstone would also be involved in Zenith's float later this year, Muggeridge said The news comes as investors are showing new interest in local diamond stocks as explorers gear up for the start of the winter field season in Australia's northern diamond provinces — Reuter.

DIAMONDS (216) FM 5/5/95

Russians want summit

In a gesture of independence aimed squarely at De Beers, Mikhail Nikolaev, the President of Sakha, Russia's diamond mining republic, is calling a summit conference of world diamond industry leaders in June The future of diamond supply, mining, manufacturing, finance, and the jewellery trade will be the focus The working title is *New Russia in the Diamond World* and it represents the first concerted effort by Russia's diamond policymakers to develop a consensus with other producer countries and market interests

Officials of Almazy Rossii-Sakha (ARS), principal diamond miner in the country, confirmed the plan when asking European diamond figures to help in the preparations An ARS official says the company will act as host Invitations are planned to go to Ministers responsible for mining policy of all diamond producing countries.

June 19-23 is proposed for the conference, but has not yet been fixed. At least one day has been set aside for a session in the capital, Moscow, followed by a charter flight to Yakutia and meetings there

A leading figure in the diamond industry says he thinks it "striking that this should be in Russia this year, just before the final stage of contract talks with the CSO De Beers always hates having all the producers come together But this is apparently what the Russians intend"

CSO MD Gary Ralfe was last in Moscow at the end of March, and met Yevgeny Bychkov, chairman of the State Committee for Precious Metals & Gemstones (Komdragmet), as well as Lev Safonov, an ARS director and the head of its mining operations. Ralfe urged the Russians not to foster an open debate on the contract terms that have still to be negotiated

Russian sources say that Bychkov is angry at detailed public criticism from De Beers about Russian rough sales in recent weeks The Russians don't intend to start serious talks on the contract for several months, the sources claim

De Beers officials acknowledge this and say negotiations may not start until September Komdragmet is encouraging Russian press speculation that no new contract will be signed before the expiry of the old one at end-December.

John Helmer in Moscow

COMPANIES

Namco sets course for new bounty

(216)

ST(BT) 14/5/95

By JEREMY WOODS

THE West Coast marine diamond rush reached a new pitch this week when Namco, the third largest concession holder behind De Beers and BHP, launched its R50-million high-tech marine mining vessel for a major sampling programme.

The mining vessel Namco 1 contains Namco's latest sampling tool, the Namrod, designed to suck marine diamonds from the West Coast's seabed.

The 36-ton sampling tool has a unique facility which completes primary screening of the sea bed, ignoring the larger sized rocks.

The remainder, which hopefully include diamonds, are sucked in by high pressure hoses to an onboard screening process.

The Namrod covers a 10m² area and clears material down to bedrock level, where most diamonds lie, and was developed at a cost of R25-million by Namco and Royal Boskalis.

Boskalis is the world's largest sea dredging group, and the Namrod has been designed specifically for conditions on the West Coast seabed.

Results from the 240-day, R35-million sampling programme, will be eagerly awaited by Namibian-listed Namco and its shareholders, as well as rivals De Beers and BHP.

"At the outset we recognised the difficulties inherent in a small company competing with the De Beers and BHPs of this world. But our partnership with Royal Boskalis, the world's largest and most experienced sea-dredging group, has been fundamental to our ability to compete with these two groups," said Alastair Holberton, chairman of Namco, who are backed by [illegible] British-based Abbey Life.

"The marine diamond mining industry has grown dramatically in the last two years because of the technological changes enabling greater recovery from deep-water areas. We believe the Namrod has taken that technology another big step forward."

The sampling programme, which will also encompass some trial mining, hopes to establish the level of diamond deposits and to produce a mineable ore reserve for the company's extensive Namibian and other West Coast concessions.

"No one can predict the outcome of an exploration project but I can assure you, we are confident our programme will be implemented to the highest standard and we are encouraged by the prospectivity of our areas," said Mr Holberton.

Recently released results from BHP in a concession near Lüderitz "are most encouraging".

He said the West Coast marine diamond industry was in "robust shape and forging ahead".

"Last year De Beers produced 407 000 carats from the seabed of Namibia. Contractors working on their concessions boosted output from 62 000 carats to 135 000 carats.

"In the last shipment to London, the marine content exceeded that from the land for the first time. That shipment included a 45-carat stone from the sea," said Mr Holberton.

Eskom, GE

ESKOM says it has not awarded a five-year contract to the General Electric company to make a product which protects transmission lines (Business Times, April 23). GE confirms this

Business Times's report was based on information supplied by a GE staff member.

Russia wants better De Beers diamond deal

BD 24/5/95 (216)

MOSCOW — Russia wants any new diamond agreement with SA's De Beers company to treat both partners equally, a Kremlin official said yesterday

"It should be an agreement of equal powers A new agreement should describe conditions for stability on the world diamond market," said Leonid Gurevich, responsible for diamonds in the State Precious Metals Committee

Gurevich said these were his own views, and that the two sides were not yet ready for such an agreement "We may sign another contract with De Beers, like the old one But we do not see the existing deal as an agreement, it is a trade contract"

Under a five-year deal, expiring in December, Russia must sell 95% of its rough gems through De Beers's Central Selling Organisation (CSO). Russia's quota is 26% of CSO sales on the world market.

Officials say the deal, criticised in Moscow for giving De Beers too big a share, does not reflect Russia's status as a country with some of the world's richest diamond reserves De Beers markets 80% of the world's uncut diamonds Many officials want a new contract to allow greater access to world markets and a revision of Russia's quota

Michael Spriggs, an analyst at SG Warburg which markets De Beers shares, said no progress had been reported in talks between Russia and De Beers and none was likely

He was commenting on reports that Russia's biggest diamond producer, Diamonds of Russia and Sakha, had said the present agreement could be the basis of a new deal The remarks prompted a rebuttal from Gurevich who said it was the government's responsibility to set policy. — Sapa-Reuter

Premier environmental award goes to De Beers

(216)

■ BY ANITA ALLEN
SCIENCE WRITER

Striking a balance between development and the environment has paid off for De Beers Consolidated Mines, which yesterday won SA's premier environmental award for business and industry

De Beers won the National Premium Award of the Environmental Planning Professions Interdisciplinary Committee (Eppic) for its water conservation project at the Venetia mine near Messina in Northern Transvaal.

Star 2/6/95

The project, "The Venetia Balance", was a three-year investigation into ways of minimising the environmental impact of providing water for the mine from the Limpopo River

The award was accepted by Julian Ogilvie-Thompson, chairman of De Beers, who paid tribute to the multidisciplinary team responsible for the project. The team included the Department of Water Affairs and Forestry, Nature Conservation, the SA National Defence Force, the local farmers' association and environmental consultants Cave Klapwijk and Associates, which co-ordinated the activities.

The annual awards are a recognition of excellence in the application of integrated environmental management by Eppic, which represents more than 100 000 members of the combined Associated Scientific and Technological Societies of SA, the SA Society of Professinal Engineers and the Habitat Council.

Other winners were:

■ National Student Award — shared by Edward Kniel and Karin Delmarco of the faculty of engineering at the University of Cape Town, for their thesis "Environmental Life Cycle Analysis: an evaluative tool for process design", and Karoline Hanks, of the department of environmental and geographical science at UCT for her dissertation "The implementation of integrated invasive vegetation management in the Citrusdal agricultural region and the potential for landowner involvement".

■ Best Environmental Technical Paper — the Department of Environmental Affairs and the GisLAB, University of Pretoria, for the National Environmental Potential Atlas. This series of computer-based maps provides the first visual overview of SA's environmental resources.

■ Best Environmental Journal — shared by the Wildlife Society for African Wildlife and the Environmental and Development Trust for New Ground.

De Beers sales drop on eve of Russian negotiations

216 CT (BR) 19/6/95

BY NEIL BEHRMANN
LONDON CORRESPONDENT

Diamond dealers and analysts estimate that De Beers' first-half sales will fall to about $2 100 million from $2 580 million in the same period last year Full-year sales last year came to $4 250 million

"The market for polished diamonds in Antwerp, Tel Aviv and Bombay is quiet," said Michael Coulson, Nedcor Securities mining analyst

"This indicates that the diamond jewellery market is slowing down, particularly in Japan, so second-half sales are likely to be lower," he said

Estimates of first-half turnover, due to be published by the end of June, have been downgraded.

Dealers estimated that De Beers' London-based Central Selling Organisation (CSO) sold around $1 500 million in the first three months of this year

De Beers held five sales, known as "sights" in the trade, in each half of the year Following above average sales in the first three sights, dealers had sufficient stocks, they said

De Beers refused to comment on sights, so actual results could be different Yet De Beers shares have fallen in recent days because the market has become nervous

The most unsettling variable remains De Beers' negotiations with the Russians

Under the current agreement, De Beers is supposed to control 95 percent of Russia's diamond exports, an allocation that amounts to roughly a quarter of the CSO's total sales

Sergei Uhlin, director of Russian diamond producer Almazy Rossii-Sakha (ARS), which is the main negotiator with De Beers, said the producer wants a stable diamond market by selling the bulk of Russian diamonds directly through De Beers

Yet Yevgeniy Bychkov, chairman of Komdragmet, the Russian Treasury's committee on precious metals and gem stones, hopes to expand its selling quota and drive for better prices and more independence under a new agreement

Almost all the diamonds that are by-passing De Beers are being sold from a huge stockpile controlled by the Russian treasury, said CSO managing director Gary Ralfe

Russian rough diamond exports last year surged by about 30 percent to $2 000 million, according to De Beers estimates

About $1 200 million of the diamonds was sold through the CSO The remaining $800 million was distributed directly to dealers

De Beers has refused to sell gems to two or three dealers who bought large amounts of diamonds from the Russians, said dealing sources De Beers refused to comment on the assertions.

"De Beers will have to make some concessions," said Erez Rivlin, a director of Policom BVBA, Antwerp diamond dealers Rivlin said Russia understands the market and wants to achieve better returns "Russia certainly has no intention of dumping diamonds and disturbing the market"

De Beers' sales down – dealers

(216) Star 19/6/95

■ BY NEIL BEHRMANN

London — Diamond dealers and analysts estimate that first half sales of De Beers will fall to around $2 100-million from $2 580-million in the same period last year

Full year sales in 1994 amounted to $4 250-million

"The market for polished diamonds in Antwerp, Tel Aviv and Bombay is quiet," said, Hys Nedcor Securities mining analyst Michael Coulson

"This indicates that the diamond jewellery market is slowing down, particularly in Japan, so second half sales are likely to be lower," he said

Antwerp diamond dealers agree with this assessment, but Moshe Schnitzer, chairman of the Israel Diamond Institute, remains confident

Estimates of first half turnover, due to be published towards the end of June, have been downgraded

Dealers and a trade magazine, Diamond International, estimated that De Beers' London-based Central Selling Organisation (CSO) sold around $1 500-million in the first three months of this year

De Beers holds five sights in each half of the year Following above average sales in the first three sights, dealers had sufficient stocks, so fewer gems were sold in the May and June sights which in total were put at $600-million

De Beers refuse to comment on sights, so actual results could be different Yet De Beers shares have fallen in recent days because the market has become nervous

The most unsettling variable remains De Beers' negotiations with the Russians

"I am optimistic that a new agreement will be reached before the present pact expires at the end of the year," said Moshe Schnitzer, chairman of the Israel Diamond Institute

Schnitzer is leading a large delegation of Israeli diamond dealers and manufacturers to Moscow at the end of this week They will attend an international diamond summit

The summit will enable leading diamond manufacturers and producers to meet their Russian counterparts The diamond industry hopes that the summit will clarify the Russian position vis-a-vis the world market, commented the Israeli diamond trade magazine, Mazel U'Bracha.

Under the current agreement, De Beers is supposed to control 95% of Russia's diamond exports, an allocation that amounts to roughly a quarter of the CSO's total sales

Sergei Uhlin, director of Russian diamond producer Almazy Rossii-Sakha (ARS), which is the main negotiator with De Beers, said the producer wants a stable diamond market by selling the bulk of Russian diamonds directly through De Beers

Yet Yevgeniy Bychkov, chairman of Komdragmet, the Russian Treasury's committee on precious metals and gem stones, hopes to expand its selling quota and drive for better prices and more independence under a new agreement

Negotiations which are headed by CSO chairman Nicky Oppenheimer and managing director Gary Ralfe are thus exceedingly complex. Almost all the diamonds that are by-passing De Beers are being sold from a huge stockpile controlled by the Russian Treasury, said CSO managing director Gary Ralfe

Russian rough diamond exports last year surged by around 30% to $2 000-million, according to De Beers estimates

About $1 200-million of the diamonds were sold through De Beers' producer cartel, the CSO The remaining $800-million were distributed directly to dealers in Antwerp, Tel Aviv, Bombay and elsewhere.

Russian sales have continued to flood on to the market Dealers estimate that independent Russian sales could top $1 000-million this year, if second half sales proceeded on the same scale as the first half

Alarmed at the trends, De Beers has refused to sell gems to two or three dealers who bought large amounts of diamonds from the Russians, said a dealing sources De Beers, refused to comment

Dealers contended that De Beers' sales growth will depend on the terms of the deal,

"De Beers will have to make some concessions," said Erez Rivlin, Policom BVBA, Antwerp diamond dealers director

De Beers withdraws from Ghana project

Michael Urquhart (216)

DE BEERS would withdraw from the Birim River diamond project in Ghana following worse than expected results from a feasibility study, the diamond producer said yesterday.

The mineral resource was of lesser economic potential than expected, which had led it to conclude that exploitation "would not justify the cost of participation in a major new project".

De Beers said it had informed its partners — Lazare Kaplan International and Ghana Consolidated Diamonds — of its decision to withdraw from the project later this year. BD 20/6/95

De Beers managed the operations of Ghana Consolidated Mines. In the first 14 months of the interim management period, mine output at the mine increased by 55% to 387 000 carats. Productivity and unit operating costs improved, and the mine had a positive operating margin for the first time in several years.

De Beers said the improved performance suggested that operations had the potential to generate positive cash flows for up to two years.

Analysts said De Beers' withdrawal would have little effect on the company, as it had only a small capital investment in the Birim River project, which was not a large producer on a global scale.

BRIEF

De Beers in Ghana (216)

De Beers is engaged in setting up a $1-million bulk sampling plant in Ghana, the diamond conglomerate said yesterday In a statement, De Beers said it had reached an agreement with the Ghanaian government, Lazare Kaplan International Inc, and Ghana Consolidated Diamonds to conduct a feasability study, and possibly exploit potential diamond reserves The establishment of a bulk sampling plant would be to determine more accurately the extent of the Birim River diamond reserves The main aim of the project was to extend the life of the mine De Beers would serve as manager of the existing operations of Ghana Consolidated Diamonds for the duration of the feasibility study.

Star 20/6/95

Russia favours extending De Beers pact

(216)

MOSCOW — Russia's biggest diamond producer, Almazy Rossii Sakha (ARS), said yesterday it favoured prolonging a diamond marketing deal with De Beers but wanted to change some of the conditions.

ARS president Andrei Kirillin told an international diamond conference that world producers had to co-ordinate sales in the interests of efficiency and to maintain a balance between supply and demand

"In my opinion, it would be most acceptable for everyone if the agreement with De Beers on further co-operation is prolonged with certain improvements," he said

Under the current five-year deal, expiring in December, Russia should sell 95% of its rough gem diamonds through De Beers' Central Selling Organisation (CSO) Russia's quota is 26% of all CSO world sales

Nicholas Oppenheimer, deputy chairman of De Beers' board of directors, said the CSO was a key factor in ensuring stability and in expanding the world diamond market

Russian First Deputy Prime Minister Anatoly Chubais said the government would work out its final position on the De Beers agreement by August-September

Chubais said Russia — the biggest diamond producer in the world after De Beers — wanted to increase its revenues by focusing more on developing its cutting industry and marketing methods "Russia's share of income from the world diamond trade could be several times greater"

BM 21/6/95

CSO MD Gary Ralfe said De Beers wanted as close co-operation as possible with Russia

Ralfe said leakages of Russian rough ~~gems~~ onto the open market through joint ventures with foreign companies had weakened the CSO's market control "De Beers does not understand why joint ventures should be allowed to export rough diamonds abroad for polishing"

He said the market should be buoyant at a time of economic growth in the West "But the morale of the market is poor Confidence is weak Polished prices should have reacted to improved economic conditions"

Ralfe attributed the market depression to a perception that co-operation between Russia and De Beers was breaking down

"There is a fear that diamond sales in Russia are dictated more by Russia's need for foreign exchange than by the real needs of the market," he said — Reuter.

De Beers, Russian partnership shaky

(216) CT 21/6/95

MOSCOW – De Beers and Russian diamond authorities were exploring alternatives to full partnership, De Beers Central Selling Organisation (CSO) managing director Mr Gary Ralfe said yesterday

Mr Ralfe said there had been difficulties in negotiating an agreement for Russia to continue supplying rough diamonds to the CSO

"The logical arrangement would be to commit 100% of Russian diamond sales to the CSO and for the CSO to supply the Russian cutting industry"

The CSO and Russian authorities are trying to negotiate a new treaty before the end of the year, when their current agreement expires

The diamond market has been shaky owing to the uncertainty of Russia's contract with the CSO and the country's sales of diamonds outside the contract

Mr Ralfe said prices for polished gems were lower than a year ago, despite improved economic conditions. — Sapa

De Beers share up after surprise sales

(216)

BD 22/6/95

Michael Urquhart

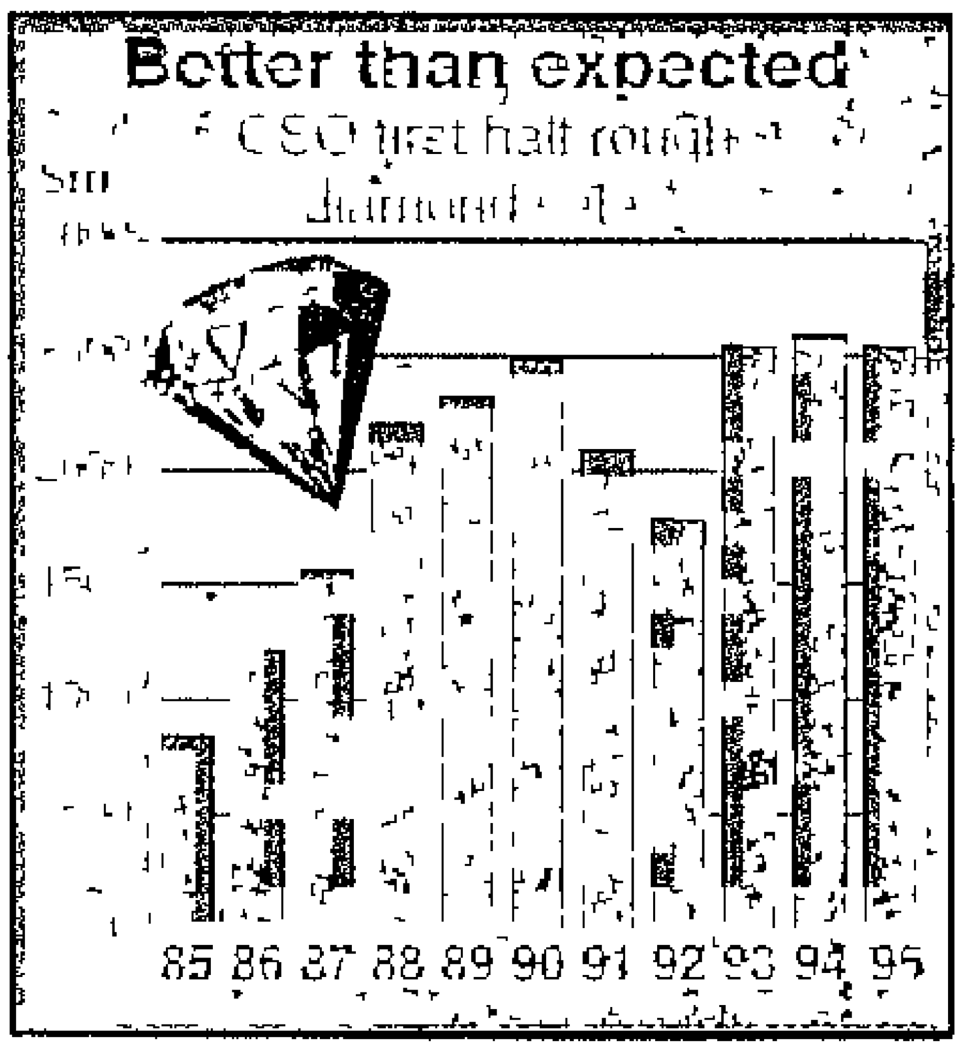
DE BEERS' rough diamond sales for the first half of this year — released yesterday by its diamond marketing arm, the Central Selling Organisation — were $40m down on year-earlier figures, at $2,54bn.

The market had expected sales to be $200m-$400m lower. De Beers' share price jumped 150c to R96,75 after the sales figures were released

The CSO said preliminary indications were that world retail diamond jewellery sales, after a 4% increase last year, had "continued to progress satisfactorily" However, it remained cautious about second-half sales

Analysts were bullish about the figures, saying full year sales should at least be flat and could be slightly up on last year's. One said he was looking for better second-half sales than last year's, but that there were a number of "imponderables" that could swing the situation.

If world economic growth ran out of steam, which was possible if the US economy failed to perform, diamond sales could be slightly down on last year's If the CSO reached a new agreement with the Russians before the end of the year, this could take illicit Russian diamond sales off the market and lead to a jump in CSO sales



Another analyst said cutting centres had restocked after a good holiday period It appeared that problems with cutting centre profitability, which had hampered sales last year, were out of the way.

The better than expected sales could indicate the Russian stockpile could be dwindling It was not yet clear what sort of goods the CSO had been selling. If the bulk were low quality, margins would be low. An emphasis on gem-quality diamonds would lead to better margins.

Diamond sales slip 1,6 percent

(2/6)

ARG 22/6/95

JOHANNESBURG — The Central Selling Organisation's sales in the first half of 1995 dropped by 1,6 percent to $2540 million, compared with the same period last year

However the rough diamond sales in the first six months of this year were 52 percent higher than the $4250 million achieved in the second half last year

"While rough diamond sales for the first half of 1995 have held up well in line with continuing growth in world retail demand, the CSO remains cautious about second half sales," it said

The CSO, De Beers' marketing arm, which controls 80 percent of the world diamond market, said prospects for the retail diamond jewellery market remained positive in most parts of the world.

World retail sales rose by four percent in US dollar terms last year, with the United States' market growing by seven percent Japanese sales last year fell by five percent in yen terms, but were up three percent in dollars

The CSO said sales in East Asia were still showing strong growth, eight percent in dollar terms last year.

However in Europe retail sales were mixed, with Britain, France and Italy showing signs of improvement

Preliminary indications were that 1995 retail sales were progressing satisfactorily, it said — Sapa

De Beers' sales beat expectations

(216) CT(BR) 22/6/95

By Neil Behrmann
London Correspondent

De Beers' diamond sales for the first half were \$2 540 million, which was 1,6 percent below the same period last year, but about 10 percent higher than dealers and analysts had expected Sales have stagnated at about \$2 500 million for the past three years

Diamond trends should be monitored in dollars, but the weak rand helped De Beers' results First-half sales thus rose by 0,9 percent to R9 116 million and compare with R15 107 million for the whole of last year

De Beers remained cautious about sales for the second half, which were \$1 670 million last year Turnover for the full year last year was \$4 250-million

There was still concern about the effect of large scale Russian sales on the market

In a speech in Moscow this week, Gary Ralfe, managing director of De Beers' Central Selling Organisation said that "morale in the diamond market was poor" Uncertainty about supplies and prices were undermining market confidence, he said

Nevertheless, De Beers said first-half sales had been better than market forecasts because of the strong retail diamond market during a buoyant Christmas period Dealers had restocked, with sales of rough, uncut diamonds particularly strong in the first quarter

Global retail diamond jewellery sales rose 4 percent this year to a record \$43 000 million and were progressing satisfactorily, it said

In the United States, turnover surged by 7 percent last year Retail sales in Japan, the second largest market after the United States, slid by 5 percent in yen terms Measured in dollars, Japanese sales were up by 3 percent, but conditions had been stagnant this year, said De Beers

Turnover improved in Britain, France and Italy In Germany and other European nations, results were mixed

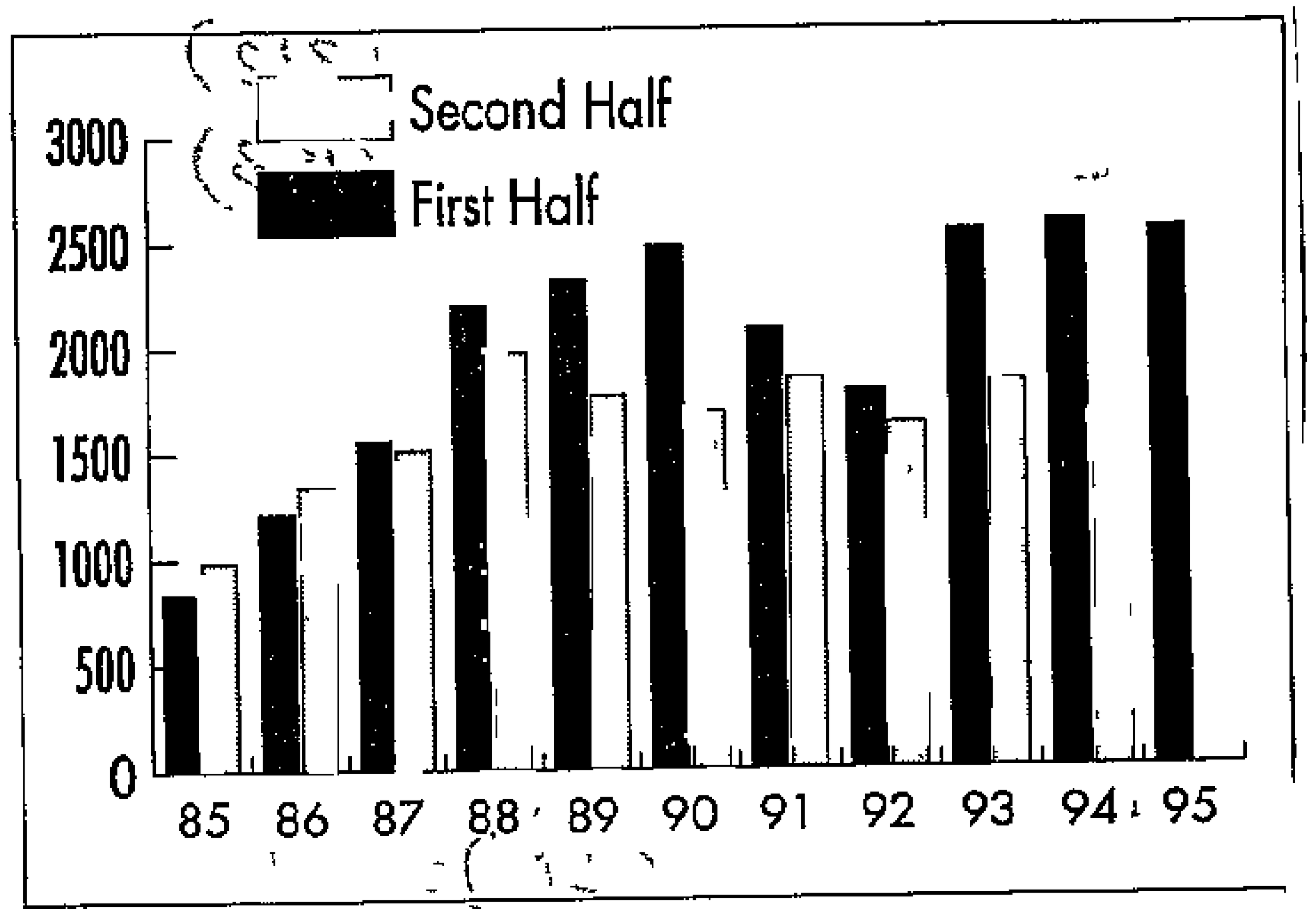
Retail diamond jewellery sales in East Asia rose 8 percent last year and the markets there were still showing strong growth

Ralfe said the improvement in retail sales should, in normal conditions, be followed by rising prices and confidence However, uncertainty due to protracted negotiations with the Russians had resulted in the prices of gems being lower today than a year ago

De Beers wants Russia to sell almost exclusively to the Central Selling Organisation But Anatoli Chubais, Russia's deputy prime minister, said that the nation was determined to increase revenues from diamond exports by polishing more of its own diamonds

Moshe Schnitzer of the Israel Diamond Institute said that once an agreement was negotiated with Russia, it would only be a matter of time before diamond prices rose

CSO sales of rough diamonds 1985 – 1995



Ocean Diamond's lustre dimmed

Edward West (216) BD 27/6/95

CAPE TOWN — Ocean Diamond Minings' (ODM) earnings slumped to 0,35c from 11,61c a share in the year to end-March due to royalties paid to Namibia, lower grade deposits and lower average prices in its shallow water operations

Today's published results for the offshore mining group — which is set to sign collaboration agreements with resource multi-national BHP — showed turnover 7% higher at R11,3m.

Increased exploration costs of R2,08m (R581 000) resulted in an operating loss of R1,9m, but interest received of R2,03m — the company had R20,8m in the bank at year-end — left pre-tax profit at R106 000 The dividend was passed.

Royalty payments to the Namibian government of R1,07m, together with marketing and selling commission of R325 000, were payable for the first time

The group's mining vessel, Oceandia, mined lower grade deposits than previously Turnover included a contribution from the shallow water operations where profit margins were lower

In August and September ODM raised R57m through a share issue to finance a second, larger ship, to improve the productivity of the existing vessel and to repay a foreign loan and short term borrowings.

ODM issued 1,8-million shares to acquire Island Diamond Mines, a holder of the Namibian island concession areas Prospecting rights had been applied for areas adjacent to the existing mining rights around the islands.

A company spokesman said the acquisition of the various assets was expected to have a positive effect on future profits

De Beers and NUM head for showdown

Renee Grawitzky (216)

WAGE talks covering 6 000 workers in the diamond mining industry could be heading for a showdown after the NUM declared a deadlock with De Beers yesterday.

In meetings over the past two days, the company revised its offer of between 5% and 6% to 8% and the union reduced its demand from 16% to 13%. The company had indicated that its mandate was for a single digit increase and the union said its bottom line was 13%.

NUM negotiator Gwede Mantashe said if De Beers did not change its attitude it would be almost impossible to break the deadlock on wages. The company was not prepared to explore options because of its mandate. There were inconsistencies within Anglo American because Ergo had settled on 10% plus incentive schemes, while De Beers "came with a principle of a single digit increase"

De Beers negotiator Shane Leisegang said in terms of the procedures in the recognition agreement, the parties were

BD 28/6/95 Continued on Page 2

De Beers (216) BD 28/6/95

Continued from Page 1

required to report back to their principals to obtain new mandates and the parties would meet on July 14.

Besides wages, progress had been made on several fringe benefits, including the conducting of an independent audit to ascertain whether conditions of employment were racially based and the establishment of a committee to consider organisational restructuring. There were differing views on subcontracting.

Mantashe said the union was unhappy with the proposal to reduce annual leave — which was linked to the increase in public holidays — because of the company's attitude towards working on public holidays in general. He said workers would be prepared to link working on certain days to contributing to the reconstruction and development programme fund.

He said De Beers had suggested working on June 16 and May 1, which was "an ideological onslaught on public holidays significant to black workers"

Royalty paid Namibia sinks ODM's profit in spite of better turnover

ARG 28/6/95 (216)

ALIDE DASNOIS,
Business Editor

ROYALTY payments to the Namibian government and lower profit margins in shallow waters cut Ocean Diamond Mining's profits from R2,5 million to R106 000 in the year to March in spite of a higher turnover

Turnover was up seven percent, but operating profit slumped from R3,8 million to R153 000 Exploration costs of R2 million left ODM with a loss, which was offset only by interest received

Directors said royalty payments of R1 million were made to the Namibian government for the first time, as well as marketing and selling commission of R325 000

In addition, the acquisition, through the issue of 1,8 million shares, of Island Diamonds, which holds mining rights around 12 islands off the Namibian coast, meant that unsold diamonds were now accounted for differently in ODM's books, with the result that profits were reduced by R698 000.

The Oceandia, brought to harbour for a R3 million revamp in November last year, had been mining in shallower waters where diamonds were generally smaller

The refitting of the Oceandia, the acquisition of the R31 million Namibian Gem and the joint venture off the islands should have positive effects on profits, directors said

Since the year end ODM had taken a two-year option on a concession off the South African coast and was negotiating collaboration agreements with Benguela Concessions

■ In a cautionary notice to shareholders today, Messina Investments warned of a loss in the second half-year to June following a lower size and grade of diamonds recovered at Messina Diamonds mines

A staff retrenchment programme would be implemented from June 30.

The group was budgeting for a return to profitability at lower grades in the current year

■ Kilimanjaro Investments has upped its stake in Coca-Cola bottler Kilimanjaro Manufacturing from 89 percent to 100 percent through the issue of new shares at 300c

■ African Cables is to be delisted following a major reorganisation of the power and telecommunications interests of industrial group Reunert, co-owner with Siemens

African Cables will sell Rosslyn Cables for R30 million to ATC, jointly owned by Reunert and General Electric, while Afcab Holdings, the holding company for African Cables, will acquire General Electric's 9,6 percent interest in African Cables for R17,4 million (460c a share)

Afcab Holdings will then make a R14,7 million offer to minorities of 460c in cash with a view to delisting African Cables

Spokesman for the three companies said the restructuring would lead to rationalisation benefits at ATC and at African Cables

■ Gencor has reached an agreement with Oryx Gold Holding's bankers to restructure the mine's finances to clear it of debt

The agreement involves the conversion of R525 million owed to the banks into debentures, which would be automatically converted into ordinary shares at R1,50 a share when the decision was taken to develop Oryx into a producing mine, and the conversion of shareholder loans of R977 million into Oryx equity, at R1,50 a share

Bridging finance advanced by Gencor of about R158 million would also be converted into Oryx equity at R1,50 a share, and additional bridging finance of R12 million a month provided from January this year to December, which Gencor had agreed to underwrite, would be converted into convertible debentures

De Beers seeks Russian pledge

Star 4/7/95 (216)

■ BY DEREK TOMMEY
MINING EDITOR

Nicholas Oppenheimer, deputy chairman of De Beers and chairman of the Central Selling Organisation (CSO), used a diamond trade function in Johannesburg on Sunday night to further his campaign to persuade the Russians to abide by their commitments to the CSO and to renew the current contracts when they expire at the end of this year.

Russian diamond sales outside of the CSO are estimated to have reached about $1-billion-worth last year and are said to be seriously disrupting the trade

Oppenheimer was welcoming guests and delegates to the presidents' meeting of the World Federation of Diamond Bourses and International Diamond Manufacturers' Association, which is being held in South Africa for the first time since 1980.

"Diamonds, while filling a need, are not a necessity of life They are bought by people using their discretionary income – for which competition is increasing all the time The diamond industry must never do anything of a short-term nature which might threaten the diamond's special place in the human psyche "

He said that for more than 100 years De Beers has been the dominant company in the diamond world due to the fact that it was a single product company

He said De Beers and the CSO were discussing with the Russian authorities the terms and conditions which would allow their contract with the CSO to continue

"I have every confidence that we and our Russian colleagues will be able to show the flexibility and lateral thinking which will lead to a continuation of a relationship so clearly been in the interest of the world. "

Nicky Oppenheimer appeals to Russians to rejoin CSO

(216) CT (BR) 4/7/95

By Derek Tommey
Mining Editor

Nicholas Oppenheimer, the deputy chairman of De Beers and chairman of the Central Selling Organisation (CSO), used a diamond trade function in Johannesburg on Sunday night to further his campaign to persuade the Russians to renew contracts with the CSO when they expire at the end of this year. Russian diamond sales outside of the CSO are estimated to have reached about $1 billion worth last year and are said to be seriously disrupting the trade.

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"Diamonds, while filling a need, are not a necessity of life. They are bought by people using their discretionary income — for which competition is increasing all the time. The diamond industry must never do anything of a short-term nature which might threaten the diamond's special place in the human psyche," Oppenheimer said.

He said that for more than 100 years De Beers had been the dominant company in the diamond world. "We have been able to play this role for so long because we are a single product company and there will never be any chance of our being distracted from what is best for the diamond."

He said De Beers and the CSO were discussing terms and conditions with the Russian diamond authorities to allow their contract with the CSO to continue.

De Beers was not going to do anything which might threaten its industry.

☐ See next page

SA diamond industry threatened by 'tundra tears'

CT(DR) 4/7/95 (21b)

BY JAMES TOMLINS

INDEPENDENT NEWS SERVICE

Paris — South Africa's diamond industry, the fifth largest in the world, is being threatened by Russia's "Tears of the Tundra"

The "tears" are 11,5 million carats of diamonds mined annually in the heart of Siberia

This industry is thriving, despite hardships caused by temperatures of as low as -50°C, with its eight open mines working throughout the year

Stalin once sent millions of his purge victims to gulags in Siberia, which was part of the Soviet Union

After the collapse of communism, the region became the independent Republic of Sakha Its capital is Iakutsk

In July 1990 De Beers signed a five-year contract with the Kremlin which expires at the end of this year The company was given exclusive rights to 95 percent of Siberian diamonds, known for their high quality, in return for a payment of $5 billion

Two years later de Beers discovered that Siberian diamonds, worth between $700-800 million, had found their way to the market

The Russian Mafia had caught on to this wealth and exploited it by bribing local mining officials and organising a smuggling ring

But there was another leak — the Soviet Union had built up an immense stock of diamonds, and some of them were being released secretly by the Kremlin

"Five years ago we had an urgent need for foreign currency when we signed with De Beers But today I see no reason why we have to tie ourselves down in this way to the West," Eugenic Bytchkov, head of the Roskomdragmet agency told French magazine Le Point

A Roskomdragmet aide said "We are seeking the largest possible autonomy in marketing and cutting our diamonds, and deciding on our export level"

Russian diamond deal soon

(216)

Michael Urquhart

RENEWAL of the contract between the Central Selling Organisation and the parties in the Russian diamond contract should take place by the end of November, Komdragmet chairman Yevgeney Bychkov said yesterday

Under the agreement, the CSO markets Russia's diamond production But the agreement expires at the end of the year and talks on its renewal have not yet produced results

Komdragmet is the diamond marketing arm of the Russian government and controls the Russian diamond stockpile

Bychkov said talks with the CSO — De Beers' diamond marketing arm — were still at an early stage "Once the two sides really understand each other, then serious negotiations can begin."

The Russian delegation to the talks consists of a number of parties, including Komdragmet, the Yakutian government and mining company Almazy Rossi-Sakha Bychkov said De Beers was free to talk to any of the parties individually, but the final decision on the Russian delegation's stance would come from the Russian government.

Sales of Russian rough diamonds outside the CSO agreement have been causing some instability in the diamond market

Bychkov said Komdragmet was not responsible for illicit sales. It used its stockpile solely to supply Russian cutters, much as the CSO did for the rest of the world.

BD 4/7/95 Continued on Page 2

Diamonds

(216) BD 4/7/95

Continued from Page 1

He said he had an idea who was responsible and Komdragmet would be trying to stop these sales.

Bychkov said he had visited the new diamond factory being opened in Bloemfontein, but Komdragmet did not have a part in opening it and would not be supplying it with rough stones.

Although Bychkov admitted the Russian diamond industry was capital starved, he expected Russian diamond production to increase. He said he would like to see foreign companies enter the industry.

De Beers was one of the companies offering to assist the Russians with their diamond mining industry, but Bychkov said a decision had not yet been taken on what offers would be accepted.

CSO slashes price of Australian diamonds due to depressed market

S/Van 5/7/95 (216)

■ BY NEIL BEHRMANN

London – De Beers' Central Selling Organsation (CSO) has slashed the price of diamonds purchased from Australia because the market is so depressed

Gary Ralfe, chief executive of the CSO, stressed that the average price reduction of 10% only affected poor quality cheap "near gem" and industrial diamonds mainly produced by the Argyle Mine in Western Australia (The CSO, is a diamond cartel controlled by De Beers that buys diamonds from producer members such as Argyle and then distributes them to dealers)

The fundamentals of the top end of the market were sound, he said.

"We have been engaged in the realignment or rebalancing of our diamond prices to bring them into line with the market," said Ralfe There are about 6 000 different types of categories, he said and along the entire balance of the assortment, average diamond prices have not declined, he said Indeed quotes of the better quality diamonds that are in short supply, actually rose, added Ralfe.

Independent diamond dealers in Antwerp and London, however, said that sales of polished diamonds were weak, although expensive qualities were in short supply

"It is the worst market that I have experienced for 15 years," said an Antwerp diamond dealer, referring to the diamond recession of that late seventies and early eighties.

Indeed, Ralfe himself remarked that morale was low in the industry, because the Russians had oversupplied the market

First half diamond sales fell 1,6% to $ 2 540-million and De Beers hopes to at least maintain second half turnover at last year's level of $1 670-million.

Yet the main segment of the market that is in depression, is the merchandise of cheap tiny diamonds that are polished in India, said dealers

"There's a glut of near gem and industrial diamonds that are produced in Australia, Zaire and as by-products from the smaller mines," said dealers

Adding to the problems, the Russians were selling rough diamonds at discounts on the open market, said John Robinson, chief executive of Ashton Mining, one of the joint venture parties that own Argyle

Dealers added that De Beers was also responding to Argyle which markets a proportion of its production independently and has also been cutting prices.

Australian industrial diamonds lose their shine

CT (BR) 5/7/95 (216)

By Neil Behrmann
London Correspondent

De Beers' Central Selling Organisation (CSO) has slashed the price of diamonds purchased from Australia because the market was so depressed

Gary Ralfe, chief executive of the CSO, said the average price reduction of 10 percent only affected poor quality, near-gem and industrial diamonds that were mainly produced by the Argyle mine in Western Australia

Argyle produced 43 million carats a year and the bulk was the industrial and near-gem variety

Although Argyle's volume accounted for about 40 percent of global supplies, annual sales were only about $400 million, about a tenth of De Beers' sales

Ashton Mining's shares, one of the joint venture parties that own Argyle, slumped by 19 percent as a result of the announcement that prices had been cut, but De Beers shares only fell 25c to $25

"We had been engaged in the realignment of our diamond prices to bring them in line with the market," said Ralfe

There were about 6 000 different types of categories and average diamond prices had not declined, he said

Quotes of the better quality diamonds that are in short supply, actually rose, said Ralfe

However, independent diamond dealers in Antwerp and London said sales of polished diamonds were weak, though expensive qualities were in short supply

"Morale was low" in the industry, because the Russians had oversupplied the market, said Ralfe

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Russians selling rough diamonds at discounts on the open market added to the problem, said John Robinson, chief executive of Ashton Mining

☐ See Inside

Diamond distribution system 'vital'

(216) CT(BR) 5/7/95

BY DEREK TOMMEY

MINING EDITOR

The one factor which had kept the diamond trade thriving was undoubtedly the single-channel distribution system, said Jack Rosen, president of the International Diamond Manufacturers' Association, in Johannesburg yesterday.

Rosen's comment was aimed at the Russian delegation at the World Federation of Diamond Bourses Presidents' conference

He said the single-channel system had proved itself successful for decades and should be protected. "Let there be no doubt, this strengthens and sustains every segment of our industry, from the producers down to the consumers."

Rosen said that if the problem of maintaining a single-channel distribution system could be solved, it would ease the diamond trade's other problems, including bankers' loss of confidence in the industry.

"We all hope that cool heads will prevail and that the Russian authorities will realise that orderly pricing is the only avenue to an orderly market."

Rosen said he was troubled by the growing sale of fracture-filled and other treated diamonds without disclosure and called on the industry to finance an affordable instrument which could simply and inexpensively identify treated, infused and synthetic stones.

Rosen said he was nevertheless optimistic about the future of the diamond trade, with the new consumer markets in the Far East, China and the southern Pacific area promising an exceptional increase in demand.

He said he was also optimistic about a return to growth and stability in Japan and Europe. The demand for diamonds would easily absorb the added quantities that would come to the market, Rosen noted.

Diamond kings seek d to hold on to their ace

ST(BT) 9/2/95 216

ST(M

WOULD De Beers Johannesburg ever dream of bypassing De Beers London and strike a diamond marketing contract directly with Moscow in return for some kind of Anglo American-linked quid pro quo on Russia's gold?

This notion was put forward by John Helmer, a widely respected diamond correspondent in Moscow, as an outside but positive chance for the parties to reach an agreement on a new diamond marketing contract Dr Helmer was speaking in Johannesburg at the conference Diamonds in the Year 2000, held on Thursday by JSE stockbroker Senekal, Mouton & Kitshoff

De Beers did not take part, nor did the Russian diamond players it is hosting The visitors attended the President's Conference of Diamond Clubs last week and have been to several diamond operations, such as Finsch and the marine mining off the west coast

Dr Helmer does not portray Russia's diamond industry as chaotic or abnormal, as much of the press would have us believe, but as could be expected considering the size of the stakes and the pace of change Compared with precious metals, diamonds are extremely orderly and

By JULIE WALKER

Russia seeks no joint ventures in diamond mining although it welcomes foreigners in all other cases

Production is higher than two or three years ago but barely half the 15- to 17-million carats of a decade ago Some say capital spending is needed if Russia is to get to that level again, others say it suits the Russians to keep production low

In 1990 De Beers lent Russia $1-billion and secured a five-year marketing agreement whereby Russia would sell 95% of its diamonds through the Central Selling Organisation But Russia has circumvented the CSO with far more than 5% — estimates of $800-million worth have gone unchallenged by De Beers

Mr Bychkov currently looks after $2-billion of production a year — perhaps 9- to 10-million carats of current production evenly divided between rough and polished The buzz seems to be that Russia wants $5-billion a year out of diamonds within five years. Dr Helmer says the location and size of the Russian stockpile is a closely guarded secret known only to one or two.

If Russia is to earn more dollars from diamonds, either diamond prices must rise or it must sell more It is hard to do both.

The CSO cannot easily give Russia a larger quota than the current 26% of the CSO take because it would mean lowering the input of other producers. But if Russia sells more through the window — not 5% but say 25% — the diamond price will come under pressure and Russia will not earn more.

The contract expires at the end of this year. Dr Helmer claims that one or two De Beers people in London would like to give Russia the "Zaire option" where De Beers would be in no hurry to sign a new agreement, would allow the Russians to feel the cold wind of lower prices and wait for them to come round. This would be an extreme but negative solupersuade Yevgeny Bychkov, the Komdragmet chairman, to address the conference on Russia's diamond industry and its role as a world player, but Mr Bychkov was being entertained by Peter Gush, who handles De Beers in South Africa and reports only to chairman Julian Ogilvie Thompson De Beers' Moscow man Gary Ralfe is in Australia but deputy chairman Nicky Oppenheimer is in Johannesburg

Komdragmet is Russia's state committee for gemstones and precious metals and Mr Bychkov appears to be unassailably in control of the body, according to Dr Helmer, having survived two financial scandals this year alone

Dr Helmer's presentation on the diamond scenario was prefaced by a sketch of the major players, Mr Bychkov is not a crowing rooster but a hen who shuts up and looks after the eggs (diamonds)

tion, as opposed to the Johannesburg-Moscow-Anglo American theory.

Dr Helmer says Mr Ralfe — one of the two main negotiators from London — appears to be in the centre He says Russia does not want the Zaire option, but is renowned for going to the brink in negotiations.

His summary is that no agreement of the kind due to expire will be signed, but the parties could arrive at a position where roughly the current conditions will prevail — leaks and all. A kind of agreement in principle but no commercial deal

A De Beers spokesman in Johannesburg denies that London would ever be cut out of the talks

At a reception for the President's conference, Mr Oppenheimer welcomed delegates with a speech supporting the CSO He says De Beers is discussing with the Russian diamond authorities what terms and conditions would allow the contract to continue into the future and which would be of interest to both sides.

"De Beers is certainly not going to do anything which might threaten our industry and I have every confidence that we and our Russian colleagues will be able to show the flexibility and lateral thinking which will lead to a continuation of a relationship which has, so clearly, been in the interest of the worldwide industry for the last 30 years."

Paper for telecommunications policy on Friday he said opening up the market "would be subversive of our country's interest"

He ruled out a decision on a possible 20% sale of Telkom and the awarding of a R6-billion telephone tender until the White Paper was accepted by Parliament, at the beginning of next year at the earliest

In a surprisingly hard-line approach Mr Jordan told South Africa's telecommunications "rested in the narrow stilts of Gauteng whites"

He added "If we allowed foreign companies such as AT&T to compete they would cherry-pick the stilts Telkom wouldn't last a week"

Frank Coleman, president of AT&T South Africa, was at the launch and told Reuters Mr Jordan's perception of his company's plans were "unfortunate

It is not a priority of ours to start a business that's in complete competition with Telkom In fact, we're looking to support Telkom"

But Mr Jordan said

closes this week are indications from Telkom chairman Dikgang Moseneke that 22 consortia have submitted documents

The list of consortia includes most of the world's top telecommunications companies, such as British Telekom, AT&T and several Japanese companies

Mr Moseneke said recently that by the end of August Telkom would brief government on a minority strategic equity partner, who could take a holding of up to a 20%

Telkom has assets of R15-billion but is saddled with debts of about R8,4-billion A strategic partner with access to local and overseas borrowings is seen as essential

Mr Jordan's comments give a greater indication of his department's future policy than the 70-page Green Paper, which avoids clear pointers to the industry's future market and ownership structures

On ownership the paper says "the global trend is away from direct government ownership of telecommunications companies, and away from monopoly towards com-

De Beers sight 'likely to be below average'

ET 11/7/95 (BR) (Z16)

FROM NEIL BEHRMANN
LONDON CORRESPONDENT

London — Antwerp diamond dealers estimate that De Beers will be selling $350 million of diamonds at its latest sight, or sale

There are 10 sights held a year and the latest sale of De Beers' Central Selling Organisation is likely to be below average, say dealers The next sale, to be held in August, is expected to be much higher since diamond manufacturers will need the stocks for production ahead of the Christmas season.

The sale will continue throughout the week, but dealer estimates have been calculated from allocations that dealers received last week

The organisation, which is a producer cartel, buys diamonds not only from De Beers' own South African mines, but also from Botswana, Namibia, Russia, Australia and other producers The stones are then sold to 165 selected dealers from Antwerp and Tel Aviv to Bombay and New York Dealers may query a gem's colour or clarity, but generally they do not haggle over the price of the diamonds

First-half diamond sales fell 1,6 percent to $2 540 million and De Beers aims to at least maintain second-half turnover at last year's level of $1 670 million

Following De Beers' 10 percent average price reduction of poor quality, cheap, near-gem and industrial diamonds that are mainly produced in Australia, Zaire and Russia, the diamond dealing community is nervous

According to market estimates De Beers is selling a greater proportion of cheap diamonds at the latest sale

Gary Ralfe, the organisation's chief executive, said the organisation was "engaged in the re-alignment or rebalancing of our diamond prices to bring them into line with the market"

He said the organisation would continue to underpin the diamond market in "those areas where we have a meaningful influence"

Yet in regard to diamonds in excess supply following sales by the Russians and others, it would "be more difficult for us to support the market to the same wholehearted extent

"Our price rebalancing aims at optimising (the organisation's) sales," he said

Thus, the fundamentals of the top end of the diamond market were sound, but De Beers would not throw away funds by supporting oversupplied cheap diamonds

"I am not promising that we will sell more than the $1,67 billion that we sold in the second half of last year," said Ralfe

"What I am saying is that we will sell more than we would otherwise have sold, had we not done this rebalancing," he said

DE BEERS AND RUSSIA

Price slippage looming

(2/6) FM 14/7/95

The battle lines are being drawn between De Beers and the Russians as D-Day approaches for the termination of the current agreement with the Central Selling Organisation (CSO) covering the purchase of Russian diamonds

Sharp differences of approach and definition between De Beers, the colossus which effectively controls world diamond supply, and the principal Russian diamond institute, Komdragmet, have become increasingly visible over the past two years The CSO is a consortium of diamond producers dedicated to preserving an orderly market — this means a market in which supplies are carefully controlled to ensure price maintenance and the continued profitability of mines

Russia is thought to be the world's most important national producer, mining between US$1,2bn and $1,5bn of new diamonds a year Its CSO quota is 26%, which — on last year's CSO sales of $4,3bn — would entitle it to pass about $1bn worth to the market De Beers sources, supported by independents, suggest total Russian sales were around $2bn

This is not disputed by the Russians, though how the sales are defined certainly is The Russian position is that it is entitled to sell partly cut or value-added stones outside the CSO net The extent of added value is challenged by De Beers and some officials allege that the Russian approach is nothing more than cheating

The *FM*'s Moscow correspondent, John Helmer, believes at least part of the CSO's difficulties with the Russians may lie in an undiplomatic approach to the renegotiation and that it didn't brief itself sufficiently on Russian strategic thinking Helmer suggests that Komdragmet chairman Yevgeny Bychkov's long-term intention is to expand Russian diamond sales from $2bn to as much $5bn a year within five years, much of that in polished form to extract maximum add-on value

The next agreement with the CSO is apparently intended to run for five years This is precisely the period over which Bychkov's strategic plan — if it exists — would be put into effect

Two developments concentrate the extent of the disagreement between Russia and the CSO The first — probably least important — is that De Beers has suspended the sights held by international diamond dealer Mendy Kaszirer He owns two diamond cutting factories in SA, at Bloemfontein and Johannesburg It is rumoured that he intends to import Russian diamonds into SA for cutting here

Bychkov was in SA last week to attend the Diamonds in the Year 2000 conference He also held discussions with De Beers and Anglo chairman Julian Ogilvie Thompson Anglo deputy chairman Peter Gush accompanied Bychkov on visits to various De Beers mines

Curiously, Bychkov — who had previously visited Kaszirer's Bloemfontein factory — denies supplying rough to Kaszirer for cutting here

Kaszirer is reported to have said that this will increase employment opportunities and forex earnings Angry De Beers officials respond by saying Kaszirer's move ultimately threatens the jobs of SA diamond miners It is thought Kaszirer lost his CSO international sights because of his purchases of Russian rough outside the CSO

His response was to ask De Beers to supply his local factories with $500m of gems — about 12% of total sales worldwide in 1994 The request is thought to have caused some concern because De Beers is obliged — in terms of the Diamond Act (S59) — to supply local cutters with their requirements Though Kaszirer's request has since been modified — the *FM* understands to about $50m — the matter remains unresolved

Komgragmet's Bychkov
watching the market rebalance

The second issue is that Australian producer Ashton Mining has announced the CSO has put into effect 10% price reductions for poor quality near-gem and industrial diamonds Analysts agree that this is an unsubtle message directed at the Russians Almost by the way, the Australians have been delivered a hefty clout, too — though it is only fair to add that mines managed by De Beers in SA and Botswana don't escape unscathed

A decade ago, many of the diamonds to which the price reductions apply would have been classed as industrials The rise of Bombay as the world's largest cutting centre, with a huge manpower pool prepared to work at low rates, changed all that CSO CE Gary Ralfe says (without using this language) De Beers will no longer support this end of the market

The logic is clear As long as the CSO mopped up surplus supplies, the Russians were happy to feed goods into the market. Removing this rebalances the market

Russian production, mostly from mines operated by Almazy Rossii Sakha (ARS), remains a closely guarded secret but probably extends to about 40% gem quality If correct, this means about 9m carats a year will be near-gem or boart, with an average value probably below $25 a carat — just the kind of material De Beers no longer intends to prop up

The point about the latest CSO move is that, though Ralfe claims it will be price-neutral for its books, he doesn't say what its effect will be on CSO sales

The implication, which will not have escaped the wily Bychkov, is that the CSO now expects slippage in prices in the category above near-gems If that happens, slippage could well occur all the way up the diamond scale

This assumption — if it proves correct — is De Beers' way of telling the Russians ahead of the expiry date of the CSO agreement (year-end) that it's eyeball-to-eyeball time And, for once, private enterprise may have an arm lock on government Russia's political masters need cash more than anything else. Komdragmet has been a reliable source — though, in the process, it is thought much of the Russian stockpiles of gold, platinum group metals and diamonds have been eroded

The ability to supply instant money may explain Bychkov's apparently unassailable position as Russia's diamond king, though some of his authority may be ascribed to his years as an industry boss in Sverdlovsk in the Urals — around the same time current President Boris Yeltsin was party supremo in the area

The latest CSO move, however, must be a matter of concern to him and his managers because it may well spell the beginning of the end for the comparative freedom which the Russians have enjoyed in selling outside the CSO cartel *David Gleason*

MARLIN GRANITE FM 14/7/95

Refinancing plan

A substantial recapitalisation of ailing granite producer Marlin Corp is to be put into effect Italian investors, operating through Luxembourg-based investment company IIE, have mounted a rescue action which includes a cash injection of R54m-R60m. At the same time, control will pass from Peter Gain's USAT Trust

Marlin's track record has been distinctly unimpressive for some years. Attributable earnings of R27m in 1989 haven't again been equalled It made R14m in 1990, R10m in 1991 — then lost R16m over 18 months in 1992, followed by another loss of R4m in 1993 and a break-even last year

Along with most other granite producers, Marlin's conspicuous weakness has been its stretched balance sheet Interest charges have consumed almost all spare cash, and financial director Ian Macmillan says R6m was absorbed this way in 1994

About R42m of the new cash injection will be applied in retiring short-term debt That will leave Marlin effectively ungeared and with as much as another R28m in cash reserves

Of the R60m issue, R54m has been underwritten, half by First National and half by IIE In addition, FNB will take up R10m worth of preferred ords, redeemable between five and seven years out

Marlin is controlled by Marlin Holdings (Marhold), which has 69,7% of the equity This is expected to fall to about 51% Gain has undertaken to relinquish stock and rights to ensure IIE takes effective control, when the transaction is completed, it's expected his USAT Trust will hold about 10% Gain will stand down as chairman

Though the deal involves a change of control, the JSE isn't insisting on a standby offer to minorities, because it falls into the ambit of a rescue operation The *FM* understands that if the Italians hadn't come to the party, Marlin's future would have been limited

Another feature of the deal is the new perspectives it adds to Marlin's operations Over the last year, says executive director Mario Marcenaro, operating costs at all quarries have reduced by around 30% The group has a wide range of product, principally Belfast black but also Rustenburg and greens from the Northern Cape It also owns two granite quarries in the US (in Georgia and North Carolina), both of whose product is exported to Europe

Finally, the change of control to Italian investors should give the group access to the centre of the international stone-cutting industry Based on its renowned marble deposits mined since antiquity, Carrara in southern Italy is the acknowledged fulcrum of the global business

Assuming a forward p e of only 8 for financial 1995, Marlin now offers a good call option on the granite market, itself gaining from recovering demand *David Gleason*

Marlin's Gain *losing control*

REUNERT/AFRICAN CABLES

Unknotting shareholders

After nearly two years of negotiations with its partners, Reunert has agreed to restructure its power and telecommunications interests FM 14/7/95

At the centre is African Cables, currently owned by Reunert and Siemens through unlisted Afcab Holdings (82,3%), GEC (9,6%) and various minority shareholders (8,1%) African Cables owns Rosslyn Cables which makes telecoms cable, Bell low-voltage cable and mains power cable GEC and Reunert effectively own unlisted ATC which manufactures telecoms cable It is the only maker of glass fibre optics in SA

African Cables will sell Rosslyn Cables, intact except for its mains power cable division, to ATC and will keep Rosslyn's power cable division ATC will pay R30m for Rosslyn, R16m in cash and the rest in ATC shares African Cables will acquire a 21% interest in ATC In turn, GEC will sell its 9,6% in African Cables to Afcab Holdings and retain a smaller interest in ATC

The reason for this complex reshuffling resides in production The reorganisation is based on two different types of manufacturing process Copper telecoms cable and the low-voltage PVC cable both use high-volume continuous-flow processes, whereas the heavy-gauge power cable is made in discontinuous batch lots By combining the efforts of Rosslyn and ATC, production will be more efficient and the company will reap economies of scale

Reunert executive director and new African Cables MD Glyn Riley says Rosslyn can also be kept as a going concern Rosslyn will step up the number of shifts working in the telecommunications cable division, improving efficiency and absorbing excess labour from the mains division.

African Cables will benefit from the transferred mains volumes and will share in ATC's improved profits through its 21% shareholding A R41m capex programme will upgrade its manufacturing plant and information systems and streamline its productivity

The redivision sounds simple and logical. Why the protracted delay in implementation? Riley says shareholdings of the various holders were very different and took time to resolve "Enter the lawyers," he smiles

The upshot was to give Afcab 91,9% of the equity in African Cables At this stage it seemed logical to management to offer to buy out minority shareholders and delist the company "It is costly to be listed when you have so few shareholders" says Riley "And it makes good commercial business sense not to be when the business is a strategic one " African Cables is important to Reunert's involvement in SA's mass electrification programme, in which GEC and Siemens are both partners and competitors

The offer to minorities is controversial as it was made at 460c/share when the market price was 560c The offer price is based on a valuation by SCMB, whose director Bernard Katz says the bank used the "capitalisation of earnings approach" — that is, sustainable earnings times an appropriate p·e multiple Prevailing circumstances which affect value, such as market conditions and earnings profile, were taken into account

A few years ago, minorities refused an offer of 625c when there was a change of control at African Cables Katz says "circumstances have deteriorated since then and over 90% of the minority shareholders have indicated their acceptance of the offer of 460c"

Katz thinks the market share price of 560c at the time of the offer was unrealistic "This share hardly trades In 1994, fewer than 21 000 shares (0,05% of issued share capital) traded over the year and in the first six months of 1995 only 27 000 shares changed hands The market price doesn't reflect true value" NAV stands at 305c and the share seems fairly rated at 460c EPS and operating margin have been depressed over the past few years, owing to the recession and underinvestment in its assets

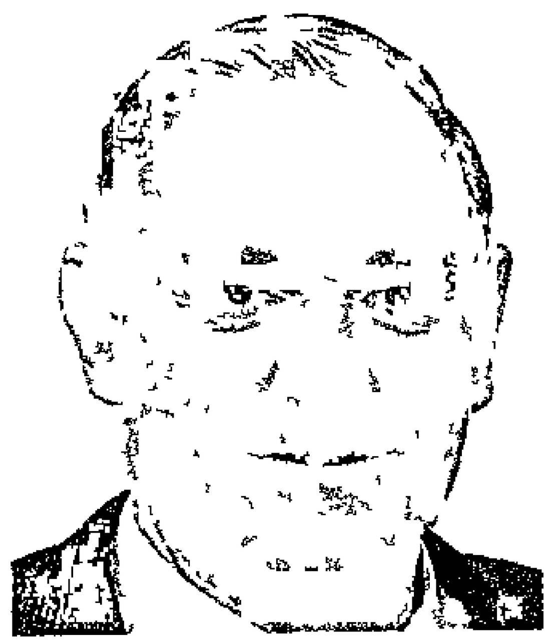
Of the three cable companies in the market, African Cables produced the worst results yet its price rose when those of the others fell Katz will not comment on why the price rose, Riley suggests it was affected by market rumour rather than value

The restructuring may indeed benefit African Cables, but if it is delisted the public will see the results only indirectly, through Reunert *Margaret-Anne Halse*

Diamonds 'make' the bed they lie in

ARG 15/7/95 (216)

■ De Beers Marine of Cape Town has commissioned a study to assess the environmental impact of its diamond mining down to depths of 200 metres beneath the sea. The assessment is headed by the University of Cape Town's Environmental Evaluation Unit. Business Reporter MAUREEN MARUD spoke to some of the people involved in what has been called "real Jules Verne stuff" off the west coast of Namibia.



Mark Berry

Sue Lane

Des O'Shea

THE search for diamonds in the sea has sparked a unique study that by its very nature is advancing the frontiers of science

One of the first of its kind in the world, the purpose of the study is to assess the impact of deep-sea diamond mining on the natural environment in order to then avoid or minimise any harmful ecological effects

The study has been commissioned by Cape Town-based De Beers Marine, the maritime arm of world leaders in diamond mining, De Beers Consolidated Mines

In keeping with the global trend towards environmental awareness, De Beers Marine has asked the University of Cape Town's environmental evaluation unit to study the environmental effects of its mining activities about 70 kilometres off the coast of Namibia

There De Beers Marine operates a fleet of four diamond mining vessels, one sampling vessel, and one geosurvey ship that maps the seabed using acoustic instruments to help identify where the diamonds are distributed, up to 200 metres under the sea

At that depth it is a harsh, inky-black environment, virtually unreachable by human divers, and because of the lack of oxygen, hostile to most marine life

De Beers uses either a remote-controlled seabed crawler about the size of a large bulldozer, or a rotary bore tool driven directly from the surface ship to extract sediment from the seabed for screening and X-ray sorting for diamonds

In order to study the environmental effects of these activities, a team of geologists, zoologists, oceanographers, fishery experts and maritime technologists work from surface ships, scrutinising samples of the sand, rocks and mud taken from the seabed for invertebrates

Other physical factors such as the water temperatures, oxygen content and currents, winds and climate variants are measured, in addition to the bird and mammal life in the vicinity, and even the effects on that area of flooding of the Orange river

Their job is to separate the potential effects of mining for diamonds from various natural parameters, such as water quality, which is changed not only by the disturbance of the sediment and what is put back into the sea once the separation process is complete, but also by temperatures and oxygen content of oceanic currents

The team must also take account of the effects of weather patterns, which change conditions at sea, causing natural habitat variations of worms, crabs and other organisms on the seabed

The aim here is to try to pinpoint which changes are due to mining and which are natural

Mark Berry, group ecologist for De Beers Consolidated Mines, describes the environmental study as "real Jules Verne stuff, working in a totally different world"

"This study will be ongoing for a long time," he said in an interview in Cape Town

The project manager is Sue Lane, a senior consultant with the environmental evaluation unit

She said "Our predictions will improve over the years as we monitor more and more" She was referring to the difficulty the team now faces in knowing what is natural and which changes are due to disturbance from mining, as well as the significance of that disturbance

"We have one of the best scientific teams in the world, I reckon, with some of the best equipment in the world to monitor what's happening

"We are assessing the extent to which the environment is being changed and how fast it recovers"

The study, which has cost De Beers well over R1 million so far, has passed its first phase This was an exercise in information-gathering known as environmental scoping

Experts in all fields were invited to a brainstorming workshop, where they were asked to raise what they thought were the issues that should be tackled in an environmental impact assessment

The idea of scoping is also to evaluate the significance of each issue so that through a process of elimination key issues can be identified for study

Des O'Shea, De Beers Marine ore reserves manager and acting-environmental officer, thinks the study will have pinpointed most of the key issues by the end of the year

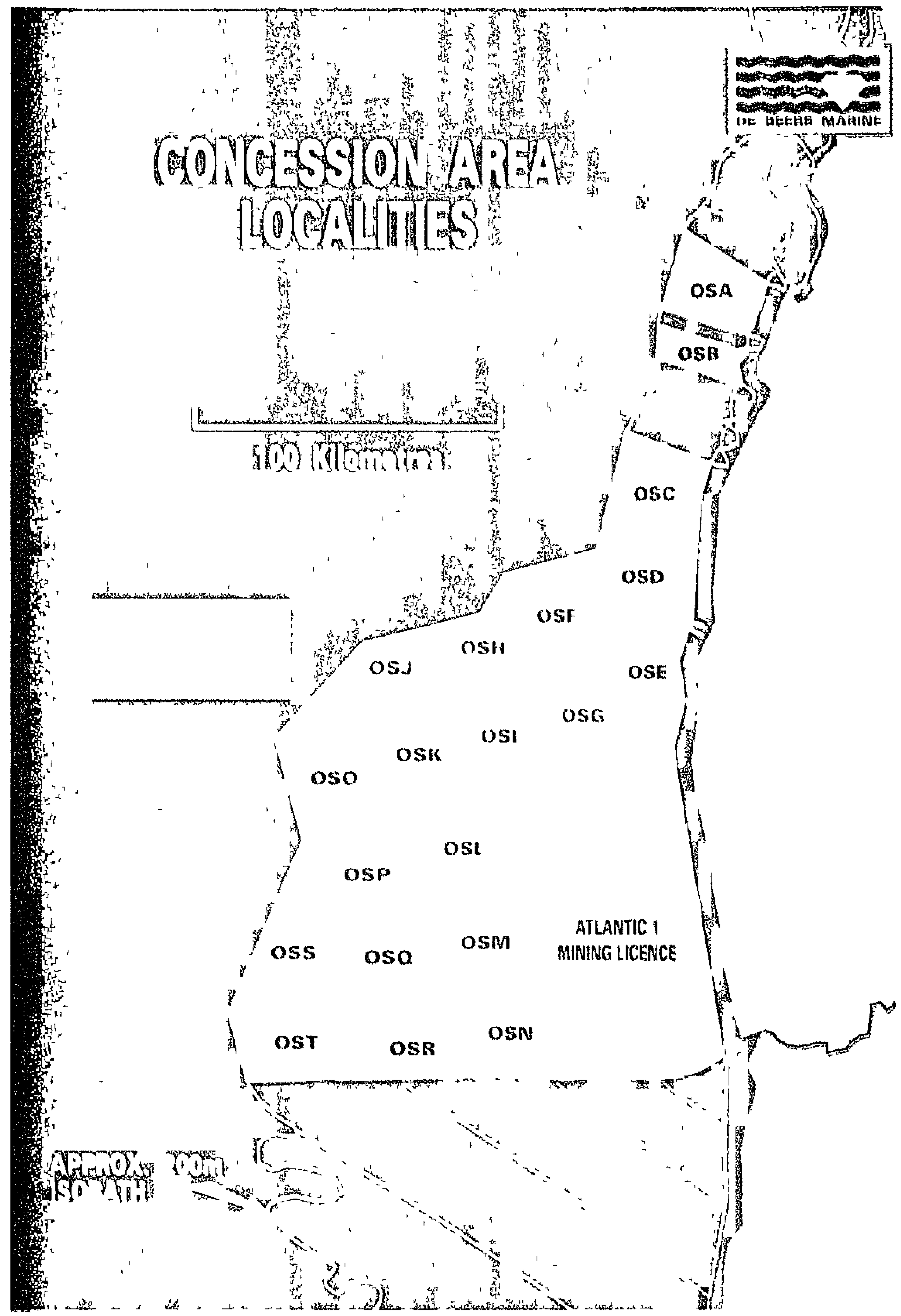
"Then, based on the recommendations from the the scientists, we will know in what ways we can attempt to minimise any adverse impacts of our mining operations"

Changes that are envisaged at this early stage include things like using environmentally friendly paint on the hulls of ships, and deciding to grind up organic waste that is currently returned over the side of the ship

"When we have got to a stage when we can actually determine the potential significance of their mining we will give them a report which will be distributed to interested and affected parties," said Ms Lane

"We are working out how long it should take for the life on the seabed to recover from mining disturbance, and that is going to be a very long, ongoing process"

Said Dr Berry "Given the small scale of the mining operation over the entire continental shelf, no long-term significant impacts are anticipated according to current know ledge"



☐ **WHERE IT IS:** The map shows the marine concession areas of Namdeb Diamond Corporation in which De Beers Marine is contracted to operate Mining operations are confined to a small area within the "Atlantic 1" mining licence area immediately to the northwest of the Orange River mouth

De Beers' diamond sales net $350-m

(216) Star 18/7/95

BY ANDY DUFFY

De Beers sold diamonds worth roughly $350-million at last week's sight, broadly in line with market expectations, sources said yesterday

The July sight, traditionally a quiet one, had left De Beers trailing last year's sales performance, analysts said But recent price rejigging could kick in from the crucial August sight to revive the diamond group's fortunes

Sources said De Beers' Central Selling Organisation (CSO) had mainly pushed lower grade stones onto dealers last week, continuing a long-running policy of starving the market of quality gems.

The policy had helped create conditions to recently raise prices at the top end of the market, while cutting lower quality prices by an average 10% A De Beers spokesman said the price rejigging had had no affect on average diamond prices

Illegal concessions trading alleged

(216) CT(BR) 19/7/95

By AUDREY D'ANGELO

• CAPE BUSINESS EDITOR

Valuable diamond mining concessions off the Namaqualand coast are owned by people who have failed to develop them despite the need for jobs in the area, the chairman of Zenith Concessions, Eric Stavely-Alexander, has complained to Pik Botha, the minister of mineral and energy affairs

In a letter to the minister, Stavely-Alexander claimed that illegal trading has occurred in these concessions and has called for an inquiry

In the early 1980s the area was subdivided into concessions which were leased out by the government "Many of these concessions were issued by the previous regime to Broederbond associates and other close associates of the former government," Stavely-Alexander told the minister

"We are also of the view that certain of these individuals secured these extremely valuable rights for the express purpose of trading in the actual concession rather than operating them

"The failure to operate the concession properly has denied the local population employment . We have clear evidence of some of these concessions changing hands for millions of rands"

Stavely-Alexander called on the minister to ensure that the situation is properly policed

West Coast diamond rumpus sparks probe

ARG 19/7/95 (21b)

ALIDE DASNOIS
Business Editor

CLAIMS that diamond mining concessions on the West Coast are being traded illegally are to be investigated by the Department of Mineral and Energy Affairs.

A spokesman for Minister Pik Botha said the regional office of the Department of Mineral and Energy Affairs had been asked to prepare a report

This follows claims by mining exploration company Zenith Concessions that the management of diamond concessions reflected "the old South Africa"

In a letter to the minister this week, Zenith chairman Eric Stavely-Alexander said concessions had been leased out by the previous government to Broederbond associates and "other close associates of the former government" in the 1980s

Some of the concession holders had taken up their rights in order to trade the concessions rather than operating them

"We have clear evidence of some of these concessions changing hands for millions of rands in spite of the fact that present government policy expressly precludes these irregular or illicit transactions", Mr Alexander said

He claimed the department was not policing the operations of some concession holders properly

Some were conducting only token operations to maintain their concessions for trading purposes

This meant that people living on the West Coast were not benefitting from the mining industry, Mr Alexander said, while some concession holders were making "windfall profits".

Leases were renewed by the government without proper enquiry, he claimed, often regardless of whether or not the concession had been worked

A spokesman for Mr Botha's office said the allegations were serious and far-reaching and required proper investigation

DE BEERS AND RUSSIA

Best friends no more (216)

Diamonds may not be forever if De Beers can't hold the line

FM 21/7/95

It has been the worst of times for the company which has long stamped its authority on the world's diamond industry

De Beers, the colossus whose product is synonymous with the dream of undying fidelity, is being forced to admit some unpleasant realities These include a restatement of the aphorism that nothing is quite as effective as self-interest in driving change The company, an integral part of the Oppenheimer family's Anglo American Corp, is at a crossroads The decisions made over the next 12 months will be as important as any effected in its often tumultuous past

De Beers is emerging from a world economic upswing with little to show for it "We've missed this cycle," admits an official And it leaves the company with a huge stockpile, high borrowings and a seriously disaffected Russian producer

Diamonds have minimal practical application The business is premised on images of lasting love and loyalty In a brutal century, diamonds carry a message of devotion, skilfully embroidered by phalanxes of advertising men

Helped by the human aptitude for self-delusion, the strategy has been notably successful But it could not have been achieved without strict control over diamond supply This is what has made De Beers famous Through its Central Selling Organisation (CSO), De Beers has run what some call a producer's co-operative and others, more pejoratively, a world monopoly

By various means — helped by the fact that it has always been the single most important producer of diamonds — De Beers has imposed its will on world industry, to its own benefit and that of other producers

It is the longest running symphony in town but serious discords are now evident Principal among these is the widely publicised disagreement between the CSO and Komdragmet (*Komitet dragotsennikh metallov i dragostennikh kamnei*, the powerful Russian precious metals and diamonds bureaucracy)

The CSO works through agreements with important producers It purchases rough production on a quota system, limited in tough times (as at present), in turn, producers undertake to market their production only through the CSO Russia holds a 26% CSO allocation, the diamonds it produces, mostly from the north-eastern province of Sakha, previously Yakutia, are sought after in the trade

Other CSO members include Botswana, Namibia, SA and Australia Any change in the quota held by one member inevitably affects those held by others, so the role played by De Beers is central to the cartel's smooth operation

And the key problem facing the CSO is that Russia, whose membership agreement expires at end-December, considers the present arrangement unsatisfactory Not surprisingly, therefore, relations between CSO and senior Komdragmet executives have become unusually tense A war of words has spilled into the public arena, each utterance picked on and examined by analysts.

At the heart of the problem is the Russian ruling elite's need to gain access to funds swiftly, to counter the economic disorder which followed the collapse of its command economy, to dispense patronage and buy loyalties Russian politicians also believe they are entitled as a right to better prices than they get from the CSO This approach may explain widespread dishoarding in the past three years of accumulated stockpiles platinum and palladium, gold, chrome, aluminium and, of course, diamonds.

Many of these are controlled by Komdragmet and it follows, therefore, that its head, Yevgeny Bychkov, wields unusual power As a state committee, Komdragmet ranks below a ministry, Bychkov, though, carries ministerial rank

He is also a member of what is only half-jokingly called the Sverdlovsk mafia This Urals city, now called Yekaterinburg (where the tsar and his family were executed), was also for a time run by a party boss called Boris Yeltsin More significantly, Bychkov has come through when it's been most needed — for instance, when Yeltsin needed quick cash to satisfy miners' demands soon after his shoot-out with parliament.

The Russian quota of 26% means that on CSO sales last year of US$4,3bn, the Russian portion would account for about $1bn However, it is known that Russian sales actually totalled about $2bn A portion of that is accounted for by the agreed-on 5% sales outside the CSO net The rest is sold to domestic factories or foreign joint ventures

Nonsense, say CSO officials. What's really happening is that, at best, the Russians are going through the motions of adding value, actually, they are leaking rough diamonds into the market in competition with the CSO The *FM* learns that what the Russians really want is a share larger than 30% in the quota, the right to sell 25% of rough outside the CSO (currently 5%), an increase of 10% on present CSO prices, and "meaningful" influence over CSO policy It isn't an agenda likely to find support within the CSO, least of all from MD Gary Ralfe, who appears to have adopted an energetically proactive approach to the Russians And it may explain the staffing change in the CSO's Moscow office last year — a move which apparently dismayed the Russians But the impasse also invites an examination of De

Beers itself and the industry it leads

The first key factor is that over 20 years De Beers and the trade have changed substantially and not for the better Though it is difficult to get access to industry statistics, those for De Beers tell a sombre story According to research by Des Mayers of broker G O'Flaherty, 1978 was a really good year for De Beers The diamond business was at a peak, sustained by the hard asset stampede Sales were at $2,5bn but, more important, $1bn in cash was sitting in the banks, the stockpile of diamonds was a modest $294m and the crude operating margin on the diamond account (calculated in rand) was 44% It was a good industry to be in. But 10 years later, in 1988, De Beers' stockpile had increased to $2bn, sales were up at $4,2bn and cash was still good at $670m Slippage is evident but it wasn't too bad.

"THE RUSSIANS ARE GOING THROUGH THE MOTIONS OF ADDING VALUE"

By end-1994, though, the cash surplus is transformed into borrowings of $960m, the stockpile is at $4,4bn, sales are static at $4,3bn and the operating margin has fallen out of bed — now barely 15%.

Two conclusions can be drawn. First, De Beers has taken heavy punishment Second, the diamond trade is in trouble, borne out by the current generation of long-established diamond cutters and traders drifting away from the business.

Bychkov *wields unusual power*

Another major factor is that De Beers struggles with different agendas. As a mining company, it is the most important world producer; but its other role is as headmaster in London of a producers' cartel.

The interests of the two may diverge It is possible that De Beers as a miner might behave the same as the Russians in seeking advantages for itself, were it not constrained by its alter ego

When the business is in smooth waters, this dichotomy can be papered over It shows up, however, when the going gets rougher, as suggested by unconfirmed stories coming out of the CSO

The third factor is about how De Beers regulates supply. The CSO has about 6 000 diamond categories Many are at the lower end, embracing stones merely of near-gem quality and industrials A decade ago, these would have been classified industrials

But, with the rise of India as a major cutting centre, using limitless cheap, skilled labour, all that changed Suddenly it was possible to sell very small diamonds economically.

It was a major boon and helped resolve the problem of how to get rid of huge quantities of Australian Argyle diamonds of decidedly inferior quality.

Two weeks ago, though, Australia's Ashton Mining (a 40% owner of Argyle) told shareholders that the CSO has dropped prices in these categories by about 10% The effect on Argyle will be serious

Ralfe .. *an energetic approach*

The *FM*'s view is that this is the CSO's way of signalling it no longer intends to be the buyer of last resort in these categories. It has sent the Russians a message On the way, it has delivered a salutary smack to the Australians, whose CSO agreement falls due for renewal in mid-1996 De Beers' own mines will suffer too

The fourth factor relates to De Beers chairman Julian Ogilvie Thompson's insistence on maintaining its single-channel marketing system Indeed, CSO officials say this is the rationale for its continued existence

Yet it is plain the single channel is, in fact, many channels The world's retail diamond industry is worth about $43bn Last year, De Beers sold $4,3bn of rough into it Mayers says he believes other sources (Russia, Angola and others) may total another $2bn This means the CSO accounts for rough sales of less than 70% of the total.

However, the CSO concentrates on quality gems. And this may explain why some CSO executives are nonchalant about Australian production from Argyle Most Australian stones are of poor quality, an area in which the CSO seems disinterested

Whether the price reduction from this sector of the business, which Ralfe calls a "rebalancing," means that De Beers finally accepts that single-channel marketing is no longer vital is another matter. A spokesman hotly denies it "Single-channel marketing is the key to the whole business," he says And this suggests the CSO is willing to see a multiplicity of sellers at the lower end but will defend its control of the supply of quality gems

An unpleasant truth is that De Beers now faces the next downward move in the international economic cycle with depleted reserves. It goes into it with a bloated stockpile, borrowings approaching $1bn and an unseemly public row with a producer of the first rank on its hands.

But it would be a folly to conclude that this is De Beers' problem alone An unease permeates the industry In the end, it is what individuals buy that counts.

Any suggestion that diamonds will lose part of their value degrades the dream on which the trade is premised It will be bad for business. It is why De Beers is so anxious to maintain confidence and why, last week, when the *FM* suggested that price cuts in certain categories might induce slippage all the way up to the best gems, CSO officials wore pained expressions.

Confidence is also why De Beers lays such importance on production and supply controls In the next two decades, new supply sources will come on stream in Russia and Canada and on a smaller scale from other producers. No-one wants an uncontrolled surge in production.

Every producer will clearly seek to secure the best advantage for itself. The drama being played out in Johannesburg, Moscow and London demonstrates Russian determination to be treated as De Beers' principal partner. It is a game of high stakes and the moves alternate between whispers and overt demonstration

This may explain recent Russian efforts to sell rough into SA (which Bychkov denies) — playing in De Beers' own back yard, as it were, with De Beers not helped by embarrassing messages of support to the Russians from Trade & Industry Minister Trevor Manuel.

In true Russian style, the negotiations may fail to produce a new agreement before the current one expires

De Beers says its co-operation with the Russians will continue whatever happens — but refuses to say what form that will take

Both sides have a lot to lose from failure to reach a solution. Everyone is watching, not least shareholders and potential new producers.

David Gleason

Royalties bring down Ocean Diamond's earnings

ET (BDR) 25/7/95 (216)

By Audrey D'Angelo

Cape Business Editor

Ocean Diamond Mining Holdings, which markets independently of De Beers' Central Selling Organisation (CSO), sold R11 million worth of diamonds in the year to March 21, according to the group's latest annual report

The company's earnings were lower at 0,35c (11,61c) a share because of royalties paid to Namibia for the first time and the fact that the company was mining lower grade deposits and receiving lower average prices

Ivan Prinsep, the chairman of Ocean Diamond Mining, said the company made use of the Trans Hex group facilities in Amsterdam and was therefore not subject to the CSO quota on suppliers

Prinsep said he thought good sense would prevail in dealings between the CSO and Russia and an arrangement would be negotiated which would be helpful to the world diamond market

"The situation in the open market has been stable and satisfactory prices were generally received"

Prinsep said the company had experienced a quantum leap in its operations in the past year with the acquisition of a new mining vessel, the Namibian Gem

"With the incorporation of the offshore islands into Namibia last year, the bulk of the company's operations are now in that country and the group has gradually recruited more Namibian citizens"

The company was hopeful that its application for the allocation of further prospecting areas in Namibian waters would be favourably considered

Second vessel should boost profit

Michael Urquhart (216) BD 25/7/95

THE substantial increase in Ocean Diamond Mining's mining capacity through the purchase of a second mining vessel should have a positive effect on the group's profits in the current financial year to end-March, chairman Ivan Prinsep said in the annual report.

Prinsep said the vessel, the Namibian Gem, would be dedicated entirely to the mining programme. The group's other vessel, the Oceandia, would be deployed mostly as a sampling vessel ahead of the mining programme.

ODM undertook a successful rights offer in September to raise R57m by the issue of 12,1-million new shares in order to finance the purchase of the Namibian Gem and its conversion into an ocean mining vessel.

The Namibian Gem was converted from the 2 500-ton Regal Service, a former North Sea oil rig supply vessel. The conversion was completed by ODM's own staff and by sub-contractors in five months at a cost of R31m.

The airlift dredging system and dense medium separation plant enabled the vessel to achieve good mining and dredging efficiencies. It reached full production capacity in May.

The Oceandia, which operated partly in a sampling and partly in a mining mode, took a total 939 bulk samples in 69 days of sampling operations in the financial year. This compared with 916 samples in a period of 103 days in the previous financial year.

During the year ODM took over Island Diamonds Ltd (IDL). IDL had applied for prospecting concessions in additional, unallocated areas off the Namibian coast.

The allocation of these areas was being considered by the Namibian ministry of mines and energy, and Prinsep said he hoped IDL's application would be favourably considered.

Russia, De Beers 'close to a deal'

CT 4/8/95 (BR) (216)

FROM NEIL BEHRMANN
LONDON CORRESPONDENT

The tantalising prospect of an agreement between De Beers and Russia on diamond sales is much closer after talks in Moscow.

Sources in the De Beers negotiating delegation said this week's round of talks had been "extremely positive and promising". The comment was made following yet another gruelling meeting with the Russians

The De Beers' delegation was headed by directors Nicholas Oppenheimer and Gary Ralfe They negotiated with Russian treasury officials and ARS, the Russian producer. They also met Russian Prime Minister Viktor Chernomyrdin and Oleg Davydov, the deputy premier

Leonid Gurevich, deputy head of the State Precious Metals Committee, said in Moscow that a new agreement was "most likely to be signed"

"The situation in Russia's diamond industry is changing rapidly and so is the perception of our role on the world markets," said Gurevich. "Any new agreement should take account of these changes," he said.

Dealers said the Russians were beginning to compromise following De Beers' price cuts of cheaper diamonds last month

The cut in prices which also damaged Argyle, the Australian producer, placed pressure on the Russians, said dealers

Ralfe, the chief executive of De Beers' Central Selling Organisation, said Russian sales of cheap "technical" diamonds had increased markedly this year

Antwerp dealers complained that there was a huge surplus of low-priced diamonds

De Beers' five-year agreement to market 95 percent of Russia's diamond production expires at the end of this year.

Chernomyrdin said he was confident there would be a compromise between the two parties. Such an accord would not damage the world diamond market, he said

☐ See page 19

De Beers faces defection from Aussie mine

CT (BR) 4/8/95 (216)

BY JON BEVERLEY
STAFF WRITER

De Beers is under attack from another quarter The Argyle Mine in Australia which produces about 42 million carats of diamonds a year is, like the Russians, talking about going it alone.

The diamond giant is struggling with the fractious Russians whose agreement to channel Siberian diamonds through the De Beers selling arm based in London, the Central Selling Organisation, ends in December and there are no signs of the parties yielding.

Last week, Andrew Murray, the corporate services manager for Argyle, said the five-year Australian contract expires next June

It provides that they sell 78 percent of output to the selling organisation — the balance is at their disposal Some of it is cut and polished at a plant in Perth, some sold through their offices in Antwerp and a highly valuable portion, comprising rare pink gems which can fetch up to A$1 million a carat, are sold each year at tender in Geneva

About half the Argyle mine's output is low-priced near-gem and industrial quality diamonds with the average price a carat for all output at A$18,11 last year This was down on the average price of A$20,95 in 1993

For the past three years, the Australians have, like other producers selling through the selling organisation, had to hold back a portion of their output — now 15 percent — because the market cannot absorb the flood of diamonds

Murray said Argyle was looking for a better contract in relation to deferred purchases and price The selling organisation cut prices of near-gem and industrial diamonds by 10,9 percent last month

He said Argyle's main options were to continue selling through the selling organisation under more favourable conditions or go directly to the market for all production

"We're quite confident of our ability to market our diamonds ourselves We have the competence and a substantial history in selling to our own customer base"

Meanwhile Argyle's junior partner, Ashton Mining, reports that drilling below the current working level at the mine outlined a reserve of some 370 million carats Some of this could be mined by extending the present open pit and they will be considering the possibility of an underground mine this year.

Current reserves at Argyle are expected to peter out by 2004 The mine has geared itself for expanded output with mine plant capacity being lifted by 2 million tons (7,9 million tons were processed last year) and the alluvial plant being lifted to 4,5 million tons a year

The expansion is intended mainly to maintain output in step with declining grades as the mine works at deeper levels

Ashton says it has two strong prospects arising out of exploration in Scandinavia and Australia

Sampling from 11 kimberlites in the Merlin area in the Northern Territories has yielded grades of between 3,6 and 118,3 carats a ton. Argyle records a grade of five carats a ton

Exploration in Finland is at an earlier stage Ashton reports finding 22 kimberlites and sample grades from three of the pipes vary between 14,3 carats and 25,7 carats a ton

Russia, De Beers 'close to a deal'

CT 4/8/95 (?) (216)

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☐ See page 19

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(216) Star 4/8/95

BY JON BEVERLEY

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The diamond giant is struggling with the fractious Russians whose agreement to channel Siberian diamonds through the De Beers selling arm based in London, the Central Selling Organisation, ends in December and there are no signs of the parties yielding.Last week, Andrew Murray, the corporate services manager for Argyle, said the five-year Australian contract expires next June

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Current reserves at Argyle are expected to peter out by 2004. The mine has geared itself for expanded output with mine plant capacity being lifted by 2 million tons (7,9 million tons were processed last year) and the alluvial plant being lifted to 4,5 million tons a year.

RUSSIA/DE BEERS (216)

Sharp reactions

FM 4/8/95

Russian diamond policymakers, furious at the recent 10% price cut imposed by De Beers, are squabbling among themselves over what action to take in response

At the same time, leaders of the diamond-mining republic of Sakha, in the Russian far east, claim they have attained parliamentary approval of a draft law that would allow domestic diamond-miners, as well as foreign companies, to sell their diamonds abroad directly, without having to go through the State Committee for Precious Metals & Gemstones (Komdragmet)

The push through parliament is tenaciously resisted by Komdragmet, which is still smarting from the snub delivered by Prime Minister Viktor Chernomyrdin In mid-July he toured diamond mines in Sakha, and signed an agreement with the republic's leaders that appears to grant them more autonomy in diamond policy than Komdragmet would like to concede

The turmoil among Russia's diamond men started after the mid-June decision by the De Beers Central Selling Organisation (CSO) to cut by 10% the price it will pay producers for small-size diamonds

The action was interpreted by some Russians as a tactic to induce the Russian government to come to terms with the CSO on a new contract to replace the five-year-old one expiring in December. But a senior De Beers official said Russia's diamond revenues need not suffer from the price action, if Almazy Rossi-Sakha (ARS) reduces the proportion of small goods in its shipments to London, and increases the larger sizes, for which De Beers is now offering a higher price

ARS and Sakha officials, who visited SA as De Beers' guests in early July, were placatory in their initial conversations with De Beers However, they changed their tune on the return to Moscow, condemning the price move as a violation of the CSO contract with Russia Sakha vice-president, Vyacheslav Shtirov, was especially sharp in his reaction, striking Shtirov's hosts on Main Street as a surprising reversal.

De Beers has rejected the claim of a contract violation, but agreed to meet ARS's sales division head, Pavel Kovillin, in London this week

In parallel, sources in Moscow say Komdragmet chairman Yevgeny Bychkov has rejected negotiating terms with De Beers which have been accepted by ARS and First Deputy Prime Minister Anatoly Chubais

The sources, who have sought anonymity, say Bychkov is insisting the contract with the CSO should not be renewed unless De Beers agrees to concessions allowing Russia more freedom to market its rough diamonds outside the CSO framework. The present contract allows independent sales of just 5% of Russia's total export shipments each year Bychkov reportedly wants to enlarge this substantially

ARS, the Sakha leadership, and Chubais reportedly favour a one- or two-year extension of the current agreement, without change in the terms. A Russian official said "no draft of the contract has been prepared It could be signed at any time now, or not at all That requires a political decision"

Also at issue in negotiations on the arrangements for sales of Russian diamonds between Moscow, ARS and De Beers is the authority of the Russian parliament to legislate who can export diamonds

On July 14, after months of debate and delay, the Duma approved at a first hearing a draft law to reorganise the powers of Komdragmet Intense lobbying by ARS and the Sakha government has produced a measure proposing an end to Komdragmet's monopoly right to acquire all gold mined in Russia, and to regulate the export of diamonds Instead, miners of gold and diamonds will have the legal right to licences to sell a share of their production directly, either on the domestic market or abroad

Parliament sources claim that, if this version of the law is enacted, it will supersede whatever agreement is struck with De Beers They say that if ARS and De Beers agree on an exclusive export marketing scheme, along the lines of the contract now expiring, parliament will step in to allow independent marketing

Komdragmet deputy chairman Leonid Gurevich says the draft law will have "no direct implication" for Komdragmet He says Komdragmet and the Ministry of Finance will retain the authority through the licences they issue to decide who, in addition to ARS, can sell rough abroad Licensing regulations which Komdragmet will issue, once the bill becomes law, will preserve whatever arrangements are agreed with De Beers, Gurevich maintains

Duma experts working on the legislation say they expect further debate and amendments when the measure comes up for its second hearing in October *John Helmer in Moscow*

De Beers' offer withdrawn (216)

CT 8/8/95 ([illegible])

JOHANNESBURG: De Beers and the National Union of Mineworkers yesterday ended talks on wages and working conditions after De Beers withdrew its offer on contract labour and affirmative action, an NUM statement said

Mediation would continue on August 16 unless a conciliation board was appointed, the NUM said

Sapa-Reuter

Commission to examine diamond industry

(216) CT(BR) 15/8/95

By Jon Beverley

Special Writer

South Africa's diamond industry may be investigated by a commission

Gerhard Bindeman, the head of the South African Diamond Board, said proposals for the commission's terms of reference were being examined by the Department of Mineral and Energy Affairs

The industry had been asked to nominate people to serve on the commission and their names had been handed to the department

Bindeman stressed there was "nothing wrong" with the industry but said there was a need to make possible adjustments in line with new government policies

The industry faces a number of quandaries.

One of them received publicity last year when the Diamond Workers' Union paraded through Johannesburg and handed a memorandum to Mineral and Energy Affairs alleging that the policy of exporting rough diamonds had resulted in a dramatic slump in employment numbers At about the same time, a row blew up between a diamond cutter and De Beers in which the cutter alleged that the mining group was not supplying him with the rough diamonds he required

Finite

There have also been continued calls for the local processing of all diamonds because it is believed this will add value and provide employment

The mines have finite resources While the newer Venetia mine will be around for a long time, there are others facing closure — on top of which diamond quality tends to diminish in relation to the depth of the mine

While diamond cutters and dealers would appreciate more work coming their way, in South Africa basic diamond economics dictate that the bulk of work is undertaken in more accessible and centralised centres, such as Antwerp

The industry was last examined by the Greeff commission in the early 1970's

ARG 16/8/95

De Beers/Centenary earnings up 16,7%

(216)

Business Staff

DE BEERS/Centenary has reported a 16,7 percent rise in attributable earnings for the six months to June to $398 million compared with $341 million a year earlier

Earnings amounted to $1,05 per De Beers/Centenary linked unit, up from $0,90 in the previous first half An interim dividend of $0,25 ($0,254), equal to 93,0c cents (92,8c), was declared

De Beers chairman Julian Ogilvie Thompson said yesterday it was unlikely the improvement in the balance sheet would be sustained in the second half of the year, reports Sapa.

Sales by the CSO, the De Beers marketing arm, would probably not match the sales achieved in the first six months, and deliveries to Centenary, the Swiss-based company, were lower in the first half than they are likely to be in the second.

Mr Ogilvie Thompson was mildy optimistic on the outlook for the second half, saying new diamond production was "more or less" met by demand.

Russian producers were still bypassing their sales agreement with the CSO and selling diamonds directly on world markets. However, he noted that the type of diamonds being sold by Russia from its stockpile was falling, an indication the stockpile might be diminishing

"In the last quarter, we are going to be able to get an agreement that will be satisfactory to both parties," he said

De Beers is also faced with the renewed threat of illicit diamonds from Angola Alluvial diggers have resumed their activity in the country's dry season

River-bed diggers for the first time now have water pumps, which could enable them to reach the diamonds during the rainy season.

Peter Gush, De Beers' Angolan specialist, said the company had applied for diamond licences in the country However, it did not make an application for alluvial licences, which had now been issued

In spite of these challenges, Mr Ogilvie Thompson was upbeat on his assessment of retail demand The sale of diamond jewellery around the world was about three percent up in local currency terms and significantly higher when denominated in dollars

"Retail sales of diamond jewellery should continue to rise satisfactorily," he said "The fundamentals of this business are sound and encouraging"

■ Gold Fields increased attributable income by 10,6 percent to R395 million in the year ended June (R357 million)

This was largely as a result of a substantial increase in dividend receipts from the base metal companies which more than offset a small decline in dividend receipts from the gold mining companies.

Gold Fields declared a dividend of 140c per ordinary share (140c), making the total for the year 220c.

Income rose 11,7percent to R628 million (R562 million) and expenditure 13,7 percent to R208 million (R183 million)

The group followed its rights in the Northam Platinum Limited and Western Areas Gold Mining Company Limited rights issues It also underwrote the Northam rights issue The total investment as a result of these issues was R495 million

Gold Fields Ghana Limited continued its exploration during the year An additional 274 holes were drilled in the contiguous area of Pepe, Mantraim and Akontansi East and a prefeasibility study for a surface mining project in the three areas is in progress

De Beers defies its prophets of gloom

(216) CT (BR) 16/8/95

By Derek Tommey

Mining Editor

De Beers and its partner, Centenary, have shown up their critics by reporting substantially higher earnings for the six months ended in June

In contrast to the "dull" earnings forecast by a number of commentators, De Beers' results are 17 percent higher in dollar terms and 20 percent higher in rand terms.

But the interim dividend is virtually unchanged at $0,256, equal to R0,93

Julian Ogilvie Thompson, the chairman of De Beers, said the fundamentals of the diamond business remained positive, with new production being more or less met by demand.

Where there had been excess sales, it meant some party had been selling from stockpiles. But stockpiles were finite, he said

However, confidence in the rough diamond market had been impaired ahead of the outcome of negotiations with Russia on the renewal of its Central Selling Organisation sales agreement.

Ogilvie Thompson said a meeting would take place shortly between Russia and the selling organisation, which, he hoped, would be satisfactory to both parties He emphasised that he was using the word "hoped".

Referring to Russian sales, which last year disrupted the diamond market, Ogilvie Thompson said sales of large gems had decreased compared with last year, while quantities of smaller stones and of lesser quality had increased.

The reduction in prices from the beginning of last month on smaller stones was partly the result of the increased supplies from Russia and partly the need to rebalance the selling organisation's prices with those of the open market.

Diamond sales had been picking up in Japan and there had been continued growth in other countries in the Far East.

He said that the Venetia Diamond Mine had now recouped its capital and, as a result, De Beers would shortly be entitled to a 50 percent stake in that mine's profit with Anglovaal's Saturn getting the other half

One of the surprises in the De Beers/Centenary figures was the 8 percent increase to $426 million in their combined diamond account. In rand terms, the diamond account increased from R326 million to R669 million.

This reflected a drop in Centenary's diamond account and an increase in De Beers' account, owing to lower deliveries to Centenary and increased sales by De Beers This situation could reverse in the second half of the year, Ogilvie Thompson said.

Investment income rose from R336 million to R424 million and interest income from R49 million to R71 million.

Prospecting and research took R176 million (R169 million) Tax jumped from R64 million to R170 million, partly as a result of Venetia's contribution.

Net income after tax was R809 million (R511 million), attributable earnings were R803 million (R508 million) while equity accounted earnings, which included the retained earnings of associate companies, were R1,35 billion (R925 million).

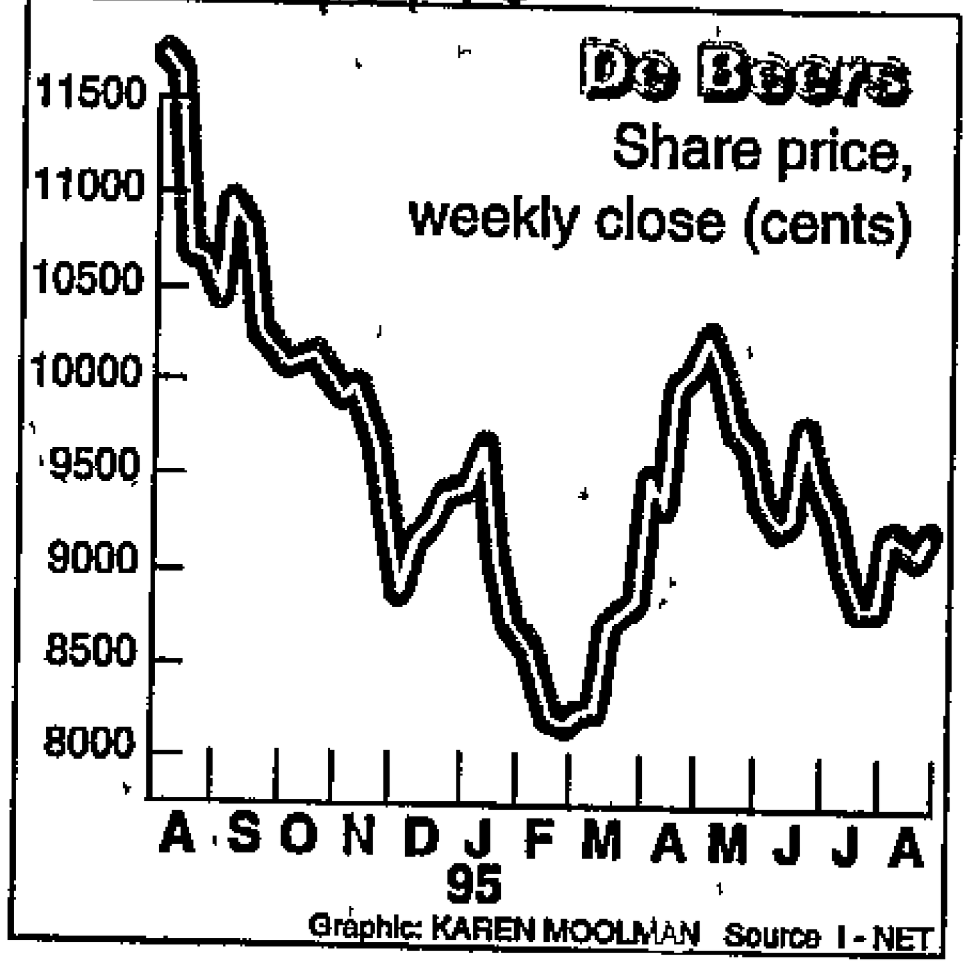
The balance sheet shows an overall improvement of $301 million when compared to the position at the end of December, but the directors do not expect this to be sustained in the second half of the year

De Beers lifts its attributable income

(216)

BD 16/8/95

Michael Urguhart



DIAMOND group De Beers lifted attributable income 17% to $398m for the six months to end-June, compared with $341m for the same period the previous year, as the group reported better performance from diamonds and investments.

Chairman Julian Ogilvie Thompson said Russian sales had continued in the first half of the year, but at a lesser rate than the previous year and with fewer good quality gem diamonds

Dividends were kept at the previous year's level of $0,25, on earnings a share of $1,05 ($0,95)

Ogilvie Thompson said sales in the second half would be lower than the first half The decrease would be determined by the amount of goods sold into the market outside the Central Selling Organisation agreement, and by the level of confidence in the market. Another meeting with the Russians had been scheduled and he hoped the parties could come to an agreement satisfactory to both in the last quarter.

New production was more or less being met by demand, but Ogilvie Thompson said quotas were being kept in place as the Russians were selling from their stockpile. But stockpiles were finite, and De Beers had already noticed a swing to poorer quality diamonds in the Russian sales

The second half should also see a swing in the diamond accounts of De Beers Consolidated and De Beers Centenary During the first half the diamond account of Consolidated had increased markedly, while Centenary's had fallen off.

Ogilvie Thompson said this had occurred as Centenary, under which the CSO falls, had not had enough diamonds of the type required by the market, and these needs

Continued on Page 2

De Beers

(216) BD 16/8/95

Continued from Page 1

were supplied from Consolidated's stockpile. This situation should reverse in the second half.

De Beers Venetia diamond mine had come into tax for the first time during the period. Ogilvie Thompson said in terms of the agreement with Anglovaal's Saturn Mining this could see Saturn earning a 50% interest in Venetia's profit depending on various production and market factors.

An industrial source said in a best case scenario this could happen late in the second half, or early next year.

De Beers still had to recoup notional interest of 12,5% on the capex spent before Saturn would receive 50% of profits.

On the retail side, Ogilvie Thompson said diamond jewellery retail sales had improved 3% from the same period the previous year, with continued good sales in the US and signs of an upswing in sales in Japan in yen terms.

Growth in sales also continued in the Far East but the European picture was mixed.

De Beers confounds its critics

216

Star 16/8/95

■ BY DEREK TOMMEY

De Beers and its partner, Centenary, have shown up their critics by reporting substantially higher earnings for the six months ended in June

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Analysts stick to De Beers outlook

Michael Urquhart

ANALYSTS, who were caught off guard by De Beers' improvement in earnings for the first half of the year, said yesterday they would not be making substantial changes to their full-year earnings forecasts.

De Beers surprised the market on Tuesday when it reported attributable earnings up 17% in dollar terms to $1,05 a share, when most of the market was expecting earnings to be flat or only slightly up.

Analysts attributed the rise in earnings mainly to technical issues, such as the transfer from De Beers Consolidated to Centenary, of a large quantity of diamonds

He interpreted the need to ship diamonds from Consolidated to Centenary as a good world demand for high quality diamonds, which had not been supplied by the Russians

He said the increase in the diamond margin, reversing a trend which had seen this margin fall since the beginning of the 1990s, showed De Beers had

BD 17/8/95 (216)

been selling more high-margin, gem-quality diamonds

The big increase in Consolidated's diamond account was not likely to continue in the second half. But analysts still expected attributable earnings to be up between 10% and 17% in dollar terms for the full year

An analyst warned there were still a number of uncertainties which could swing the results

One of these was whether the fall in supply of good quality diamonds to the market was a result of the Russians running low on these classes in their stockpile, or whether they were holding back this class of diamonds.

The NAV of De Beers' investments, including big holdings in Anglo American and Minorco, was about R83,20 a share, which meant the remaining diamond interests of De Beers were valued by the market at about 800c

But the analyst said the value of about 800c placed on the diamond interests was an upward rating from the same time last year, when the market rating was negative.

Matshakatini Nature Reserve.

Outcry over mining permit

(2/6) Sowetan 17/8/95

Mutale tribe was not consulted and will not allow mining on nature reserve

By Sharon Chetty

A BREAKDOWN in communication while the regional government bureaucracies were being set up led the Department of Mineral and Energy Affairs to approve a permit for diamond prospecting in a nature reserve

The department's failure quite literally, to speak to the right person in the Northern Province government led to a decision that has sparked a huge row

On May 25, a permit was granted to Duo Corporate Developers to prospect for diamonds in the Matshakatini Nature Reserve in Northern Province

Strong opposition

The move was opposed by conservationists and the 10 000-strong Mutale tribe – the people who have rights to the area

Matshakatini Reserve – an important archeological and ecological site adjacent to the Limpopo River and Kruger National Park – is under the control of the South African National Defence Force with the State holding the mineral rights to the area

After the SANDF approved the idea of prospecting in the area in 1993, Duo was the only company to apply for a licence The company had to submit an Environmental Management Plan for consideration

Several authorities

This plan was in turn looked at by several authorities as the Department of Mineral and Energy Affairs is obliged to consult with other bodies before a permit may be granted

In July the plan was sent to the Department of Environmental Affairs and Tourism

It proposed a few restrictions – giving its tacit approval

Eco-tourism venture

However in March, Minister of Environmental Affairs and Tourism Dr Dawie de Villiers was given details of a model that proposed that the Matshakatini Reserve be developed as a community-based eco-tourism venture

If Department of Mineral and Energy Affairs officials had bothered to speak to an official in the Northern Province regional government, Mr Jan Botha they would have found out about the other proposals for the Matshakatini Reserve

Then they would have been obliged to take note of this when considering Duo s application for a permit

Yesterday Mr Howard Benkenstein an assistant director in the Department of Environment Affairs said the Department of Mineral and Energy Affairs had not followed the correct procedure

"When we discovered the model for eco-tourism we contacted mineral and energy affairs and then found out that the permit had already been granted

"Had they spoken to the correct official in the region, they would have come to a completely different decision," he said

Dr Jan Bredell of the Department of Mineral and Energy Affairs who is dealing with this query, was not available yesterday for comment

The chief of the local Mutale tribe, Chief Korombi Mutale, is angry because he was not consulted about land his people have occupied for generations

Although it is not certain that there are sufficient diamonds in the area to warrant mining, concerns have been raised about possible irreparable damage to the environment from mere prospecting

Formal objection

Conservation groups and the Mutale tribe have lodged a formal objection to the permit with the Department of Mineral Affairs An outcome is expected by the end of August

Matshakatini Nature Reserve is a scenic area that is home to several important archeological sites which contain artifacts pointing to the Limpopo River valley as the seat of Sub-Saharan African civilisation

None of the sites have been properly explored and, if damaged, invaluable material on black African history from as far back as the Stone Age could be affected

Endangered plant

Many rare and endangered plant and animal species can be found in the reserve – including 1 000-year-old baobab trees

Chief Korombi Mutale, head of the Mutale tribe which originally owned the land and are now trying to reclaim it, said he was never asked whether the area should be mined

"I want my people to have jobs If there is tourism, there will be more benefits to my people for a long time," he said

Unemployment in the area is estimated at 80 percent

Mutale is adamant that he will not entertain any talk of mining the land under any circumstances

DE BEERS

Not yet a celebration

(216) FM 18/8/95

A single swallow has made a surprise appearance In broad terms, De Beers chairman Julian Ogilvie Thompson upstaged the market when he announced the diamond giant's interim results this week

The combined group's attributable earnings rose 17% in dollar terms — 20% in rand — to R1,96bn, or 516c per linked unit (including associates' retained earnings) One analyst confirms the outcome is "better than anyone expected, me included" Another claims the opposite "Not very interesting," he huffed

But that's the point this result has actually left most investors and analysts pleasantly surprised By the same token, however, it is important to remind investors that De Beers' first-half results are rarely of much consequence "It's what happens between July and December that counts," says a senior broker, "and these results, good though they are, don't change my opinion De Beers is a good trading stock Buy at around R90 and sell when the price approaches R100."

De Beers' Ogilvie Thompson *the stockpiles are finite*

For all that, a number of features in the half-year numbers deserve comment First, diamond account earnings — De Beers' real business — rose to R1,53bn (1994 R1,38bn) This is clouded a bit by the confusion which seems to have arisen between the earnings reported by De Beers Consolidated (SA) and Centenary (overseas)

In fact, the obfuscation — if there is any beyond the instant reaction of excitable analysts — probably rests on good earnings from Venetia, the Northern Province diamond mine now coming into its own

Second, group borrowings have declined to R3,17bn, from R4,57bn, at end-December This confirms earlier signals that the balance sheet would be unusually strong at the half-year, it won't be at year-end

In net terms, after taking account of current assets, this makes the group appear around R1bn stronger In reality, it reflects higher sales from De Beers' own mines, because other producers, notably the Russians, didn't make full use of their Central Selling Organisation (CSO) quotas This is unlikely to persist into the second six months

Third, Ogilvie Thompson says Russian sales into the open market — that is, avoiding the CSO — are at a lower rate than last year and there's a larger quantity of cheaper stones With understandable relish, Ogilvie Thompson adds that "one party (no prizes for guessing who) is selling from stockpile — and stockpiles are finite"

The issue of the negotiations between De Beers and the Russians, represented by marketing agency Komdragmet's Yevgeny Bychkov (see *Leading Articles*), naturally attracts attention Ogilvie Thompson says he believes it possible to achieve a satisfactory agreement in the last quarter — just ahead of the expiry of the agreement on December 31

Venetia mine has repaid De Beers R1bn capital investment in its development The next stage is for recovery of a 12,5% notional interest on the project, after which Saturn Mining — the Anglovaal company which holds the mineral rights to Venetia — will enjoy a 50% share of the mine's profits Ogilvie Thompson refuses to indicate when Saturn's entitlement will kick in

But what does come through clearly is that a single swallow is a warning, not a celebration

De Beers says the balance sheet improvements won't be sustained in the second half, as it expects a decline in CSO sales and doesn't anticipate being able to sell as much of its own product Management is strong on pessimism The next half-year will show whether this is justified *David Gleason*

BETTER THAN EXPECTED

Six months to	Jun 30 1994	Dec 31 1994	Jun 30 1995
Diamond account (Rm)	1 380	820	1 531
Investment income (Rm)	432	260	521
Attributable (Rm)	1 193	767	1 430
Earnings (c)*	424	345	516
Dividends (c)	92,8	206,8	93

* Including retained earnings of associates

SBIC

Acceleration needed

After interim results which showed operating income rising at a slower pace than some analysts expected, the full-year result will be watched keenly for indications of any difficulties that may extend beyond the current phase of transition

Pre-tax profit for the six months to end-June was up just 4%, and it was thanks to a 20% drop in the tax charge that attributable earnings advanced by 19,2% Market forecasts for full-year growth in EPS and dividends range around 22%-24%, so there will have to be an acceleration in the current half if these figures are to be met

Even a cursory glance shows a seemingly marked contrast between the 12,4% improvement in net income and the 20% rise in total assets, with advances rising 19% CE Mike Vosloo cites two main reasons for this One is that "a fair percentage" of the roughly R7,6bn increase in total assets since last December was in high quality — but low risk — assets, which also carry low margins The other factor is that there are more assets yielding taxfree income, such as preference shares

SBIC BY HALVES

Six months to	Jun 30 1994	Dec 31 1995	Jun 30 1995
Total assets (Rbn)	76,74	84,42	91,98
Net int income (Rbn)	1,64	1,81	1,84
Attributable (Rm)	478	549	570
Earnings (c)	401	459	477
Dividends (c)	73	191	88

The resultant rise in net interest income is not modest by comparison with the historical trend In the year to December 1994, the figure increased by 9,5%, in the six months to June 1994, by 6,8%

Though rates have been rising, Vosloo says there has not been a margin squeeze "At the moment the liquidity pattern is fine, and I'm not worried about it over the rest of the year"

What does weaken the latest operating result, however, is the 30,6% jump in the bad and doubtful debt provision, to R243m

Corridor that's leading to controversy

(216) WM 18-24/8/95

A plan to mine for diamonds along the Limpopo River is causing the biggest environment controversy since St Lucia, writes **Eddie Koch**

ON the banks of the Limpopo River between Messina and the Kruger National Park there lies a stretch of South Africa's last wilderness — baobab thickets, tropical flood plains, riverine forests, a diversity of bird life, and free-ranging herds of buffalo and elephants — that is set to become the focus of the country's biggest environmental controversy since the St Lucia debate

The military, a multinational diamond mining corporation, a coalition of green organisations and at least three dispossessed rural communities (each with different interests) are the main contenders in a complex struggle that is looming over how this 80km-long Madimbo Corridor, and its rich mix of natural resources, will be used now that it is no longer needed as a *cordon sanitaire* against total onslaught from the north.

At present the South African National Defence Force manages the corridor, which straddles the border with Zimbabwe, as a conservation area and buffer zone against illegal immigrants who flood over the frontier Military authorities have accepted that Venda and Tsonga communities removed from the area in the 1960s and 1980s have legitimate restitution claims — but will rather pay these people compensation and continue to use the area as a training ground for reconnaissance commandos.

But last year the army lifted a ban on prospecting for valuable minerals in the corridor and the Madimbo Diamond Corporation (called the Duo Corporation in some reports) — a 50-50 venture between local businessmen and an Australian mining company called Moonstone — was given a permit in May this year to look for diamonds that may have been washed down the Limpopo from volcanic pipes located further upstream

This news has created an uproar among green groups who claim that one of the subcontinent's last areas of true wilderness is about to be strip-mined and destroyed. "If mining goes ahead it will most likely blow any future ecotourism ventures off the map, not to mention the irreversible ecological and archaeological impact," says a statement issued by the Wildlife Society the organisation that first alerted the media to the issue The National Parks Board has since lodged an objection to the prospecting permit.

But Richard Bluett, a director of the Madimbo Mining Corporation says his company will ensure that prospecting and mining operations will follow strict environmental guidelines "Most of the sites where we believe the diamonds are deposited are covered by mopani scrub which we will easily be able to restore. We won't take out baobab forests nor will we mine where there is riverine forest or other sensitive ecological systems,"

'You should tell these people who like wildlife that they should come here and speak to us before they make statements about how our land should be used'

he told the *Mail & Guardian*.

Researchers at the Mineral and Energy Policy Centre, an independent NGO that is helping the African National Congress develop a mines and mineral policy, say it is possible for diamond mining to exist alongside conservation and tourism "Alluvial diamond mining does not have heavy ecological impacts and can be tightly controlled," says John Bristow, a geologist who did doctoral research on mineral deposits of the Northern Transvaal.

"The process does not require chemicals and is remarkably clean although it uses a lot of water In a country that needs to promote development for 40 million people it is not helpful to promote an emotional rejection of mining in favour of conservation. The two can exist in the Madimbo area if the matter is handled properly" He adds that Moonstone would be guided by strict environmental guidelines that govern Australian mining companies

Caught between the military, the environmental groups and the industrialists — lobbies made up mainly of wealthy middle class members — are groups with less opportunity to make their voices heard the rural people who were forcibly removed from Madimbo

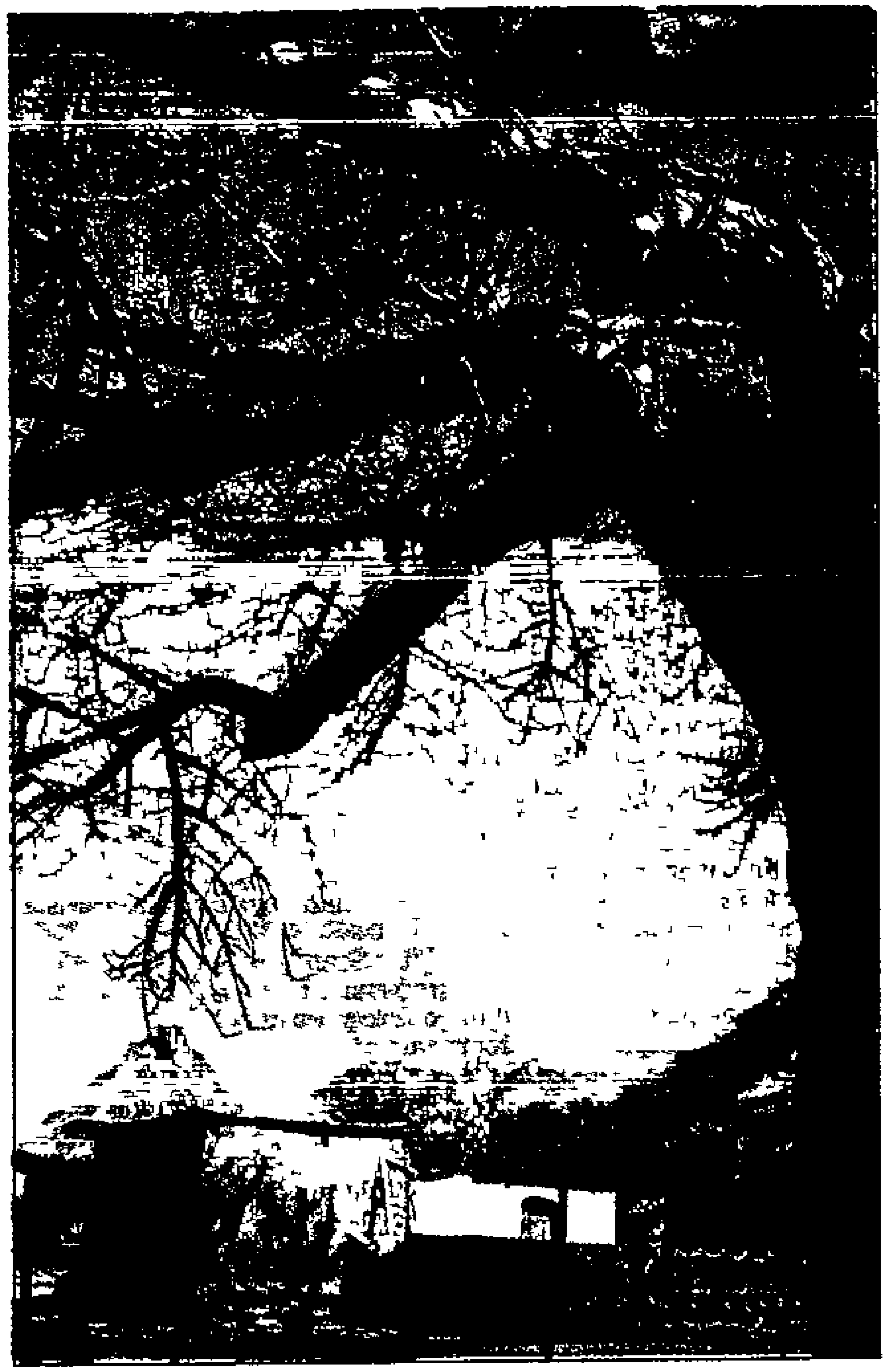
Last weekend Chief Korombi Mutele told a group of journalists who visited the village with the Wildlife Society that he is opposed to mining on his tribe's traditional land, mainly because the Madimbo Corporation had failed to consult him before applying for its permit. But while he was addressing an official press conference, other residents in the village said they favoured mining and pointed out that the nearby Tshikondeni Coal Mine, located on the Kruger Park border nearby was a major engine for economic growth in the area.

Further to the east are the Makuleke people who resided in the northern Pafuri district of the Kruger Park and a strip in the east of the Madimbo Corridor called Mabiligwe.

They built villages along the river valleys of the area — living off the fish, animals, wild fruits, mlala palm wine, and rich agricultural soils on the floodplains — until they were forcibly moved in 1969 so that the Kruger Park could be extended to the banks of the Limpopo River

"You should tell these people who like wildlife that they should come here and speak to us before they make statements about how our land should be used. And when they come, they should remember we suffered greatly when our villages were destroyed and our homes burnt down so that Kruger could be made bigger," a Makuleke tribal leader called Gilbert Nwaila told the *Mail & Guardian*.

"Even today we are the ones who feed those wild animals with our livestock. (A reference to predators who routinely break the fence and kill goats and cattle in the Mabiligwe resettlement village) Now that we have a chance to get some wealth from that land, we are being told to put even more animals there It will be very difficult to convince our people that wildlife is better than mining — and it will be even more so if we are not spoken to properly"



Looking for growth Some residents of this village favour mining as it helps economic growth in a depressed area PHOTOGRAPH: HENNER FRANKENFELD

'Sea monster' gobbles up ocean's diamonds

ARCT 2/8/95 (216)

JONATHAN HOBDAY

ENGINEERS in Cape Town have designed and developed a hi-tech "sea monster" capable of gobbling up diamonds off the ocean floor in protean quantities.

The top-secret new machine — it looks like, and is, the size of a large front-end loader, complete with metal tracks — was tested this week for the first time on the seabed off the Namibian coast

The new machine will complement the operations of a similar machine, known as "Crawler Mark II", which is being used by Cape-based company De Beers Marine to harvest diamonds from depths of over 100 m below the ocean surface

"Snoopy" is attached to De Beers Marine's mining vessel, Louis G Murray, in operation about 30 km off the Namibian coast, near Oranjemund.

The new machine — dubbed "Crawler Mark III" — is expected to be significantly more productive

Diamond mining at such depths has only been in operation since 1990 and, in that time, De Beers Marine has markedly increased production, to the point at which they now deliver one-third of the total production of Namdeb, the joint Namibian/De Beers company which is the largest concessionaire in the country

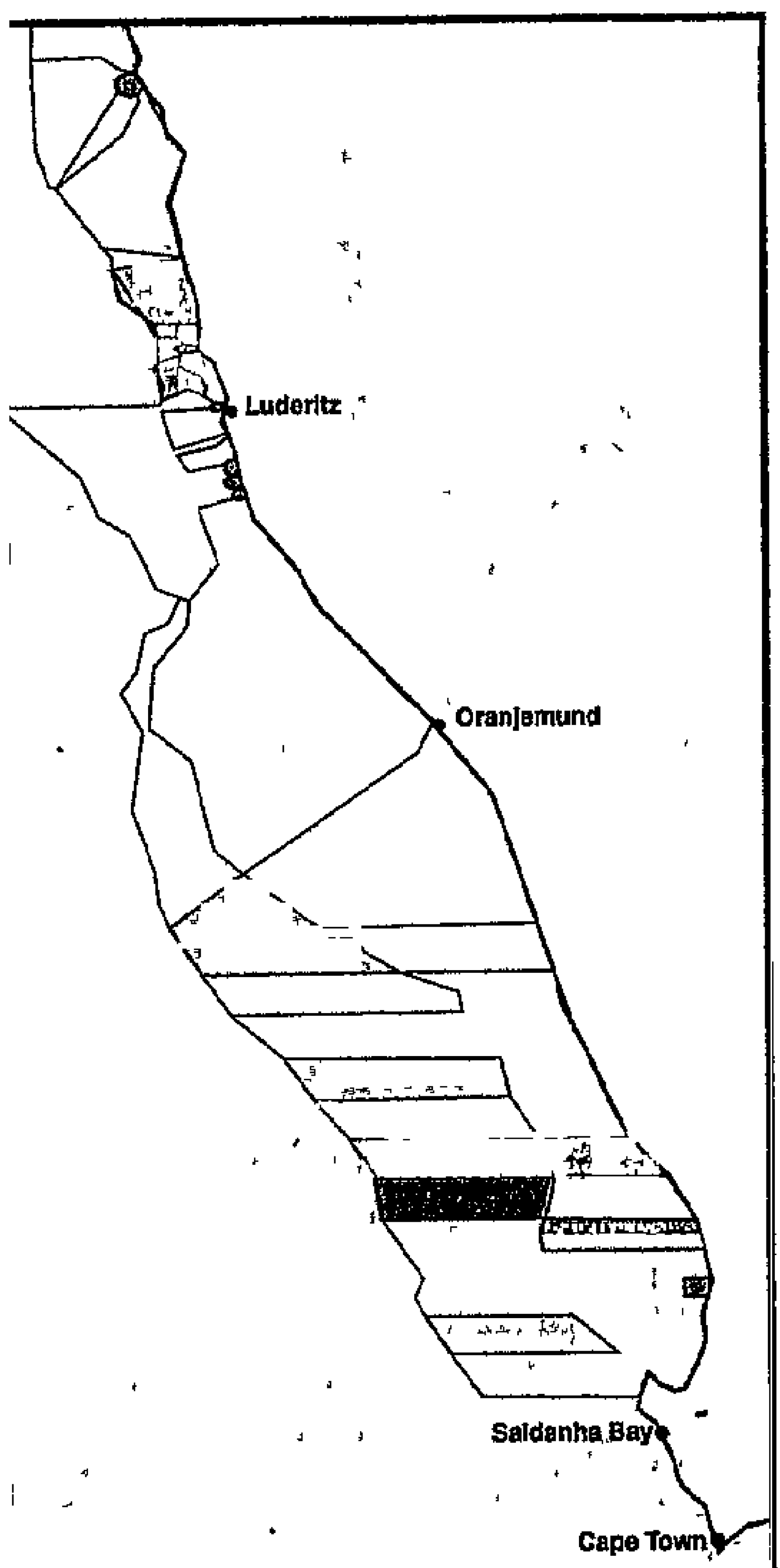
The Cape Town company also has emerged as the world leader in the complex and costly deep-sea diamond mining industry,

It is one of the main competitors in a remarkable modern-day "diamond rush"

■ **Full story, pictures and graphics on page 23.**

The diamond hunters

ARG 2/9/95



(216)

Monster of the deep

LIKE something out of a sci-fi movie, the strange vessel heaves gently on the unpredictable swells that characterise the treacherous seas off the notorious Skeleton Coast.

But don't expect to find a glamorous Kevin Costner manning the bridge, it will be a mundane master known as a vessel manager. And the complex vessel is not some sort of fictional pirate ship, it is a highly-sophisticated mining operation.

The Louis G. Murray — named after the South African geologist who championed the pursuit of the treasure trove of diamonds more than 30 km of the Namibian and South African west coasts — is one of a fleet of vessels currently harvesting the riches of diamonds from over 100 m below the surface of the sea.

In the case of this ship, the mining is done by a remote-control machine called "Crawler Mark II", a purpose-built machine that recovers gravel on the ocean floor for processing 100 m and more above it

It is one of the operations in an amazing international "diamond rush", reminiscent of the scramble that took place in the Kimberley area over a century ago — but this time it is under

■ A REMARKABLE modern-day "diamond rush" is taking place off the African west coast for the riches that lie deep down on the seabed — and a Cape Town company is the front-runner in the hi-tech race. A report by **JONATHAN HOBDAY.**

□ **MINE, ALL MINE:** The Louis G. Murray is not so much a sailing ship as a mining camp.

DBM is the only company in the world which ... techniques and equipment

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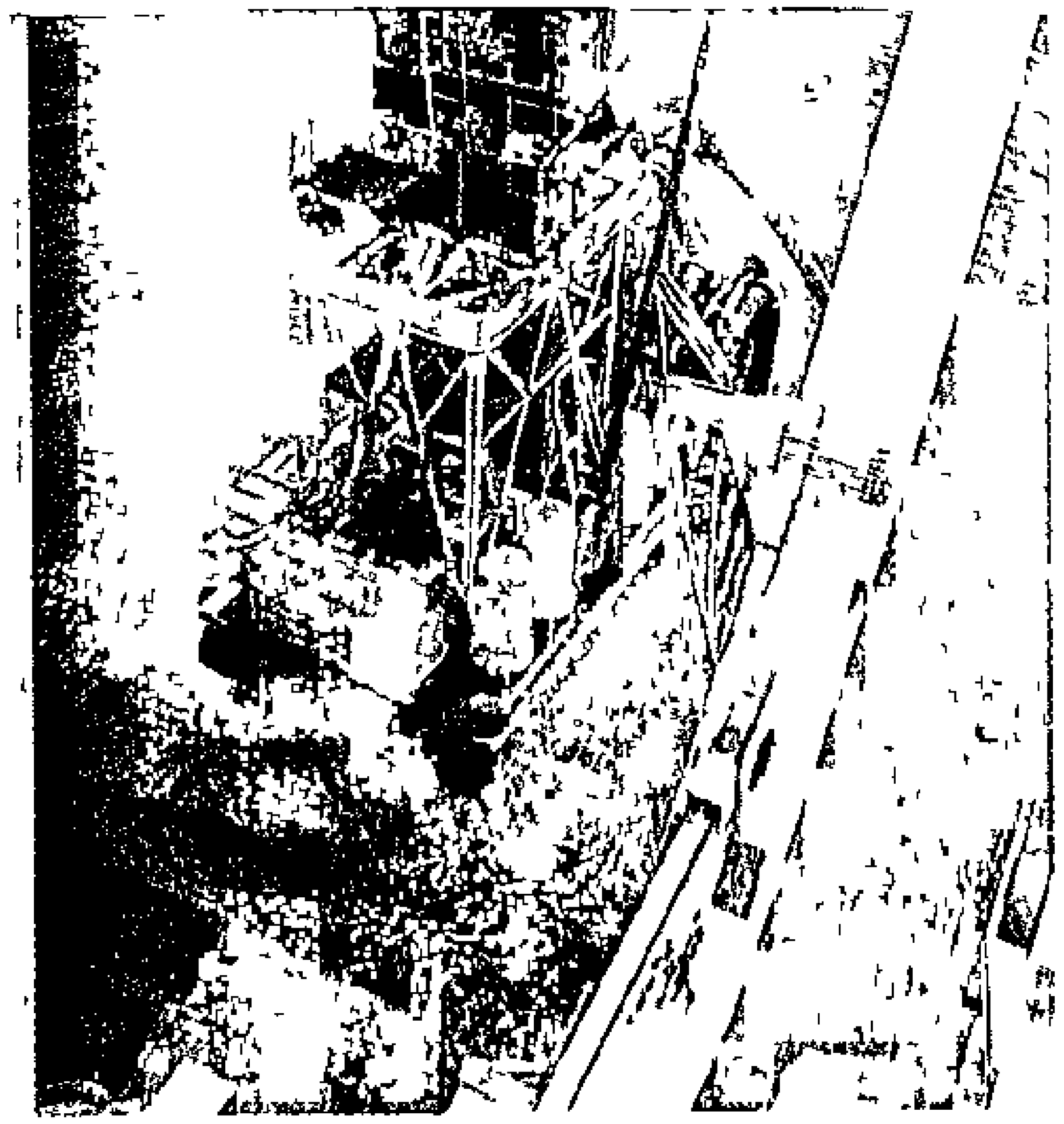
2/9/95



□ **MONSTER OF THE DEEP:** They call it "Crawler mark II", a massive machine that looks and operates like a front-end loader by remote control, recovering diamond-studded gravel from over 100 m under the sea

□ **HI-TECH MINING:** Production manager of De Beers Marine Mike Dingle at the nerve centre of one of the mining ships, the Grand Banks

own specfications in Cape Town for deep-sea diamond mining

The multi-million investment began more than 30 years ago when geologists began confirming that there might be a treasure trove of diamonds in the deep water off the African west coast

Actual mining of diamonds off the coast dates back to the early 1960s, when a Texan businesman formed a company called Marine Diamond Corporation, in which De Beers had an interest and which had obtained initial concessions to mine the seas

But these were shallow water and rudimentary operations In 1965, De Beers took over the company and began upgrading the simple dredging vessels, which were still only operating at depths of about 30 m Low-key mining operations continued for a while and then ceased completely in the early 1970s

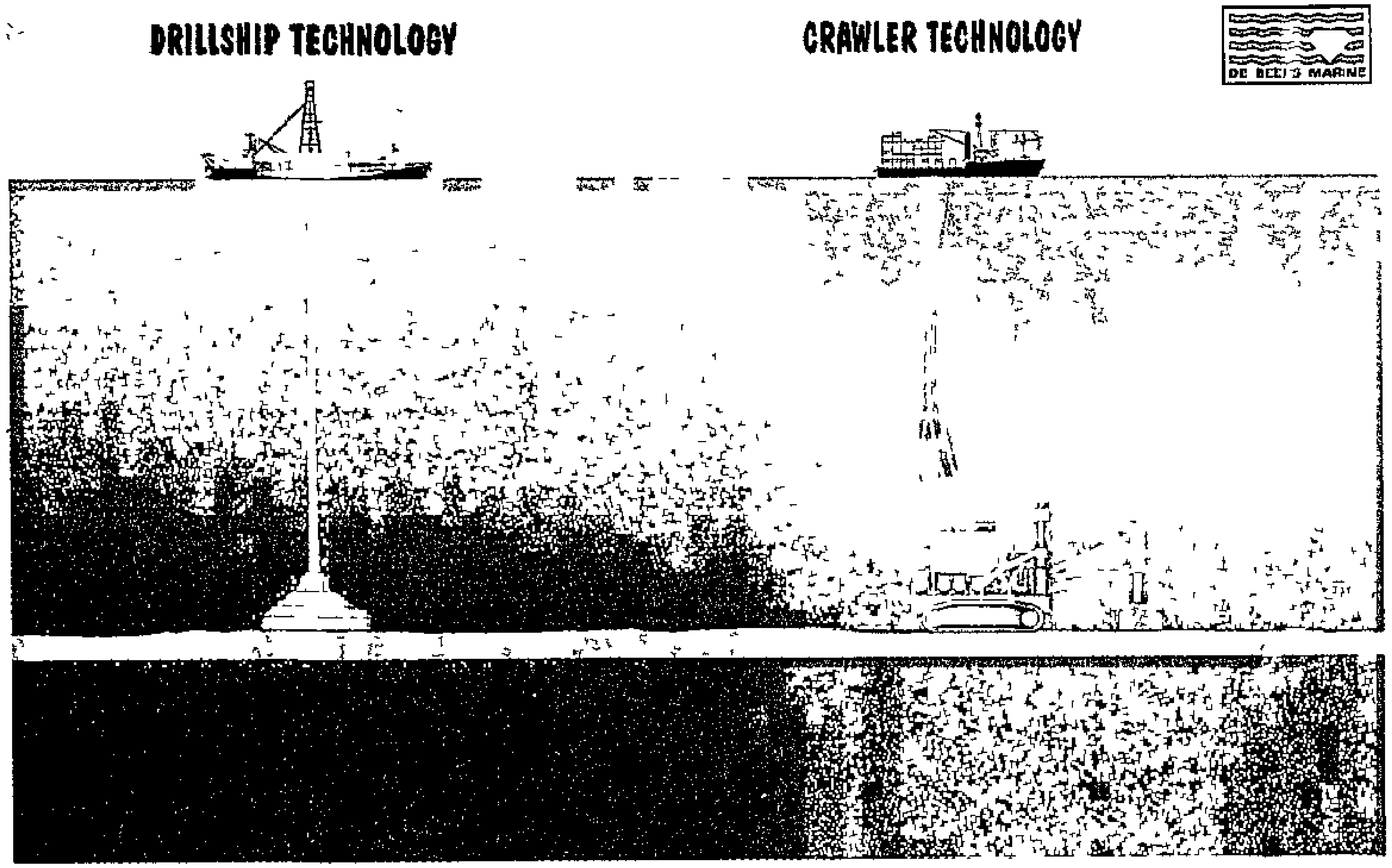
What reactivated the operations a decade later was the formation in 1983 in Cape Town of De Beers Marine. But it took almost another decade of research and development to reach current levels of production

The De Beers Marine development has been a major boost to the Western Cape and Namibian economies Apart from the millions spent in development, the company employs almost 800 people, about two-thirds of whom are seagoing

Provisioning the mining ships and making regular crew changes — they work shifts of 21 days on and 10 days off in a non-stop, day-and-night operation — requires major supplies For example, every three weeks, the crew change for the Douglas Bay off Sierra Leone, involves chartering an SAA Airbus Regular charter flights between Cape Town, Swakopmund and Alexander Bay, with helicopter flights to the ships, keep the other ships in operation

Much of the company's operations have been conducted in great secrecy over the years in what is a rough and tough mining business In recent months, the company has lifted the veil a little, in keeping with the emphasis on transparency in the New South Africa

Some things, however, remain secret As the company's managing director Paul Dixon-Savage puts it "After all, we've spent millions on developing our technologies and we are not about to hand that expertise over to our rivals"



□ **KREEPY-KRAWLIES:** De Beers Marine uses two methods of mining off the seabed — the driller and the crawler.

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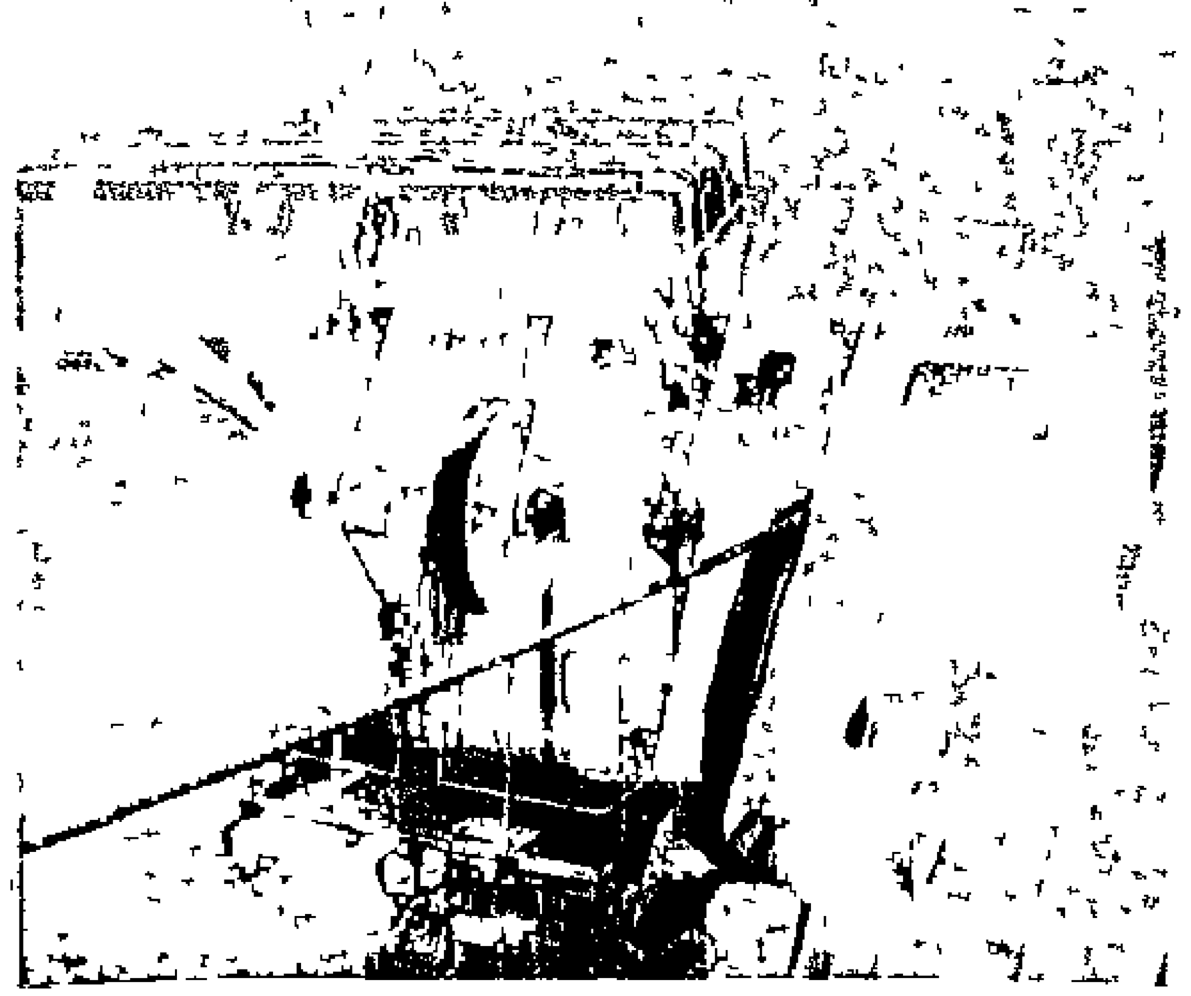
☐ **DIAMOND RUSH:** Concessions are being snapped up along the South African and Namibian coasts by a dozen or so companies. This graphic gives a rough idea of the carve-up. Biggest of the operators is Cape Town-based De Beers Marine, whose colour is yellow.



One of the dozen or so local and international concessionaires is an American-based former German U-boat captain who is reportedly planning to work his claim using a submarine! The major Australian mining group, Broken Hill Proprietary, is another contender in the race.

UNDOUBTED leader of the pack, however, is Cape Town-based De Beers Marine, which conducts operations in the lion's share of the concessions and has the most number of vessels in operation. The company has developed and introduced the most advanced technology for the unpredictable and difficult mining operations.

It is currently in full production on a 25 000 sq km area of concessions off the Namibian coast, where it is contracted to Namdeb Diamond Corporation (Pty) Ltd, owned in 50 percent parts by the the Namibian government and De Beers.

From its office on the Foreshore and from Quay 500 near the Royal Cape Yacht Club, De Beers Marine manages a fleet of eight vessels, all of them second-hand ships converted to their to make commercial mining for diamonds possible from such deep waters. Years of planning and development by experts and specialists in Cape Town began producing pay-dirt in 1991. By 1994, operating as a contractor for Namdeb off the Namibian coast, DBM raised carat production from 303 000 a year to 407 000 carats.

The success of the Namibian operations and the development of the DBM fleet of mining ships is now plumbing new depths, so to speak.

The company is engaged in preparing a feasibility study to extend its operations to include concessions De Beers owns off South Africa's Namaqualand coast.

It is also in the process of evaluating prospects off the West African coast, where Diamond Corporation of Sierra Leone has been granted a 16 000 sq km prospecting licence by the government of Sierra Leone

ONE of DBM's vessels, the Douglas Bay, is currently operating under contract to Diamond Corporation of Sierra Leone off the West African coast, doing initial prospecting prior to prepration of a feasibility study

2/9/95

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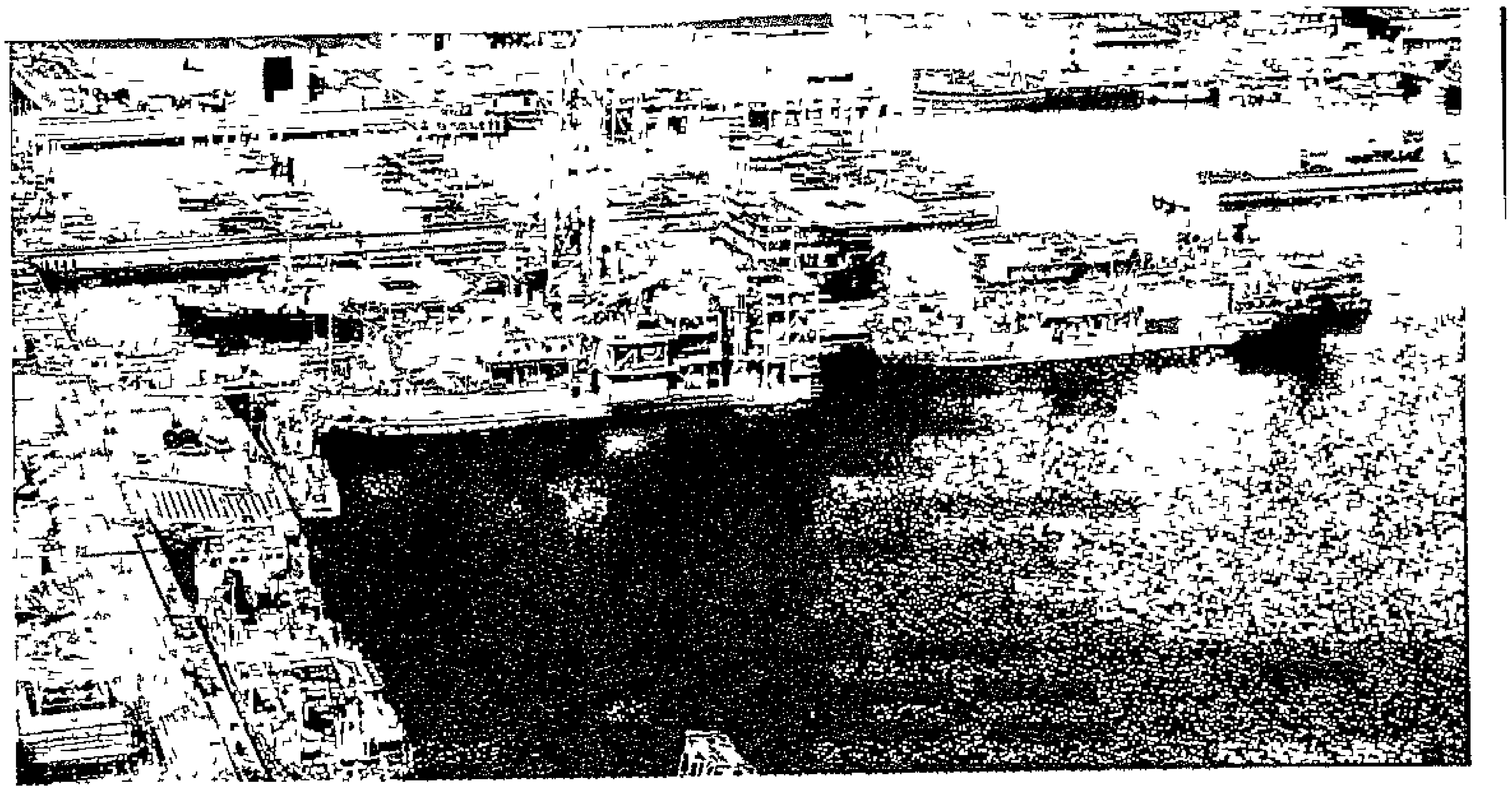


□ **QUAY TO SUCCESS:** At its harbour base near the Royal Cape Yacht Club, Quay 500, De Beers Marine has so far constructed a fleet of eight specialist exploration and mining vessels — and there are more to come.

Balloting of NUM members nears completion

(216) BD 18/9/95

Renee Grawitzky

THE balloting of 6 000 members of the NUM at De Beers diamond mines will be completed this week The majority have been balloted, with the exception of Finch mine in the Northern Cape

An NUM spokesman in the Kimberley region said indications were that members supported strike action to back up wage demands He said the union was also facing overwhelming pressure from non-union members who wanted to participate in strike action if it took place

The parties deadlocked over pay, with the company offering 10% on wages covering all mines excluding Venetia, while the union wanted this offer to cover Venetia

The reduction of holiday leave also proved to be a stumbling block

THE CSO & RUSSIA

Russians' secret deal with De Beers

(216) FM 22/9/95

Has the impasse between Russia and De Beers' Central Selling Organisation (CSO) been broken? Last week, De Beers deputy chairman Nicky Oppenheimer and CSO MD Gary Ralfe held two days of closed door meetings with Vyacheslav Shtirov, new president of Almazy Rosii-Sakha (ARS), Russia's principal diamond mining company

More important, though, is the dinner Oppenheimer and Ralfe had with Yevgeny Bychkov, chairman of Komdragmet, the government agency which controls the marketing of Russia's precious metals and diamonds Russian sources say that Bychkov told Oppenheimer he is ready to sign an agreement with De Beers for the sale of Russian rough to the CSO on the same terms as the existing contract but only for another two years The present agreement terminates on December 31 and uncertainty about Russian intentions has induced a good deal of hesitancy, even anxiety, in the international diamond trade

De Beers' Moscow representative Ray Clark refuses to disclose the agenda or the outcome of the talks beyond describing them as "a good two days' discussion " London CSO spokesman Bill Lear is similarly reticent "We have an agreement with the Russians that we won't reveal anything of substance about the negotiations In the circumstances, I can neither confirm nor deny your information"

The importance of Russia as a supplier of generally high quality diamonds has been underlined recently Its agreement with the CSO supposedly precludes it (meaning, in fact, Komdragmet) from selling rough internationally except through the CSO This does not extend to diamonds larger than 10 carats nor to semis — diamonds which may have been partially cut

The Russian CSO quota is 26% and De Beers buys the rough on the basis of its price book Last year, De Beers sold US$4,2bn of rough to the world cutting industry, suggesting Russia's share would have carried a value of about $1bn However, it is also known that Russian sales outside the CSO may have earned as much as $800m-$1bn for Komdragmet

Price and allocation are the two areas which excite most Russian opposition First, Komdragmet officials believe their quota allocation is too small But increasing Russia's share can only be at the expense of another member — Botswana, Namibia, SA and Australia are the other big participants Any move to curtail their allocations will attract powerful opposition

And they all complain that CSO prices are inadequate, though this sits strangely with the recent cuts in prices made in some areas and first revealed by Australia's Ashton Mining If the Australians are angry about the reductions (as, to judge by recent threats to leave the CSO, they are), their reaction is muted by comparison Shtirov told the Russian press "We weren't prepared for that It's like a man who is hit on the head by a brick falling out of the sky"

De Beers' price cuts have certainly bitten deep Shtirov has called them "aggressive behaviour," and the latest offer to stay inside the CSO net may be an effort to relieve

the pressure the cuts are causing A senior ARS official has hinted that it is hoping to get private concessions from the CSO but declined to make a statement which could arouse suspicion among other producers

The CSO's problem in recent years has been that the Russians to secure badly needed foreign exchange, have been cheating on the agreement by selling large quantities outside De Beers' single channel market (though they say these sales are of partially cut diamonds which fall outside the CSO net, claims which have elicited angry responses from De Beers men)

Some time ago, the *FM* predicted the Russians would seek to extend the existing deal which, in effect, enables them to benefit from De Beers' orderly market but also to market at least as much again by direct selling It looks increasingly as though this is the option both sides may reluctantly conclude is the only workable solution

John Helmer in Moscow & David Gleason

MINORCO

First light?

Not before time, Minorco, Anglo American's international mining arm, has returned interim results which signal it is about to make good on its long-awaited promise

This is a good performance — no-one can argue with an 81% improvement in net earnings, which now stand at US$210m or 94c per share (1994 $63m and 28c) If president Hank Slack has any problem, it must be that, ironically for a company with aspirations to be a world mining leader, earnings are heavily skewed to agriculture

Slack will say this is only temporary, as the really big new mine developments in South America kick in, balance will be restored But for the time being, pointing to this unusual aspect is irresistible

There are some areas worth special examination The first is Terra, the agribusiness based in the US Midwest and which contributed $270m to operating earnings of $384,9m Terra's base has been boosted by the purchase of nitrogen fertiliser and methanol producer AMCI — which alone contributed $151m to Terra's bottom line, largely from an unexpected and welcome surge in methanol prices (which have since fallen back to more realistic levels) As the northern hemisphere moves into winter, Terra's good time retreats It certainly won't repeat this showing in the second half

The second is that the US gold mines are now doing better, obviously, Minorco has poured resources and management thinking into the operations Slack can justifiably say he told us so and that is true However, what is also true is that Independence won't ever amount to more than a small row of beans and is unlikely ever to produce a decent return on the original outlay

That grumbling aside it also fair to point to base metals which this time earned $20m compared with a loss of $2m last time This is the sector which, eventually, will establish Minorco's position as a major mining house Executive director Tony Lea confirms that the new projects, notably the Collahuasi copper development in northern Chile, are proceeding on schedule

The balance sheet continues to reflect substantial inherent strength short- and long-term debt add up to $2,2bn but this is offset by cash of $221m and short-term instruments of another $1,3bn so the net position is borrowing of only $613m This implies gearing of only 19% On the other hand, the big spending days are still to come, though it must be unlikely Minorco will ever have difficulty in raising funds

At R99,75 and a p e of 19, the share is probably rather expensive However, Minorco's international exposure implies it is probably now a better long-term investment than its Anglo parent

Much has been made down the years of Minorco's potential to carry the greater group's flag internationally Unfortunately this has been accompanied by pain and disappointment The failure to take control of ConsGold after a brutal and bitter battle, the last-minute exercise by Australia's Western Mining of pre-emptive rights on the Olympic Dam project and the disconcerting performance from the US gold interests have all influenced investor perceptions

For the first time, this result indicates light at the end of a long tunnel *David Gleason*

AT LAST

Six months to	Jun 30 1994	Dec 31 1994	Jun 30 1995
Turnover (US$m)	1 936	1 499	2 415
Operating earnings ($m)	136	351	385
Attributable ($m)	63	18	210
Earnings (USc)	28	8	94

SAFREN

Close to target

Six months ago, analysts were calling for an EPS increase of about 16% for the year ended June 30 (*Fox* March 10) They were marginally wrong EPS advanced by a less inspiring 14,8%, principally because of unrest at Sun City early in the year and because there was no repeat of the 1994 R35m tax reversal in Safmarine

Though lower ship sale realisations (1994 sales R80m, 1995 R31m) hit profits, Safmarine turned in a highly commendable performance on the back of considerably expanded imports Operating profit jumped 47%, no mean feat for a company of its size Yet attributable earnings rose by only 17%, basically because it was fully taxed

Its earnings might have been higher had exports not stagnated creating a cost imbalance Container congestion in SA ports also hindered liner earnings However, the reefer market is recovering and the bulk market, especially for iron ore and coal, reached historically high levels in first-quarter 1995

Hawton *good reason to smile*

When the unrest in SA eased, hotel and entertainment group Kersaf enjoyed more buoyant trading conditions Its second half brought a significant improvement in both revenues and earnings to avoid what could otherwise have been a poor year

Kersaf bought joint control of City Lodge Hotels for R163m with effect from January 1 1994 It traded strongly throughout the year and earnings rose 51% Its contribution to Safren, though, rose to R10,6m from R3,8m as earnings for the full 12 months were consolidated for the first time

In addition, the Paradise Island investment in the Bahamas produced strong second-half earnings growth following a costly refurbishment Earnings from associates were, however, curtailed by a decline in profits from the sale of ships in Griffin Shipping

Safren chairman Buddy Hawton reports that international tourism has picked up dramatically in SA and that Sun International's revenues and occupancy at Sun City — the Lost Palace in particular — have been considerably better The Lost Palace's occupancy is currently more than 80%, and Hawton says that significant amounts are to be spent on international marketing to maintain and increase this momentum

TURNING TABLES

Year to June 30	1994	1995
Turnover (Rm)	5 076	5 815
Operating income (Rm)	845,3	984,7
Attributable (Rm)	340,5	392 2
Earnings (c)	61,6	70,7
Dividends (c)	27,5	31,0

In the context of Kersaf's casino interests, Hawton is talking about the reconstruction of Sun International and the establishment of a national consortium with empowered partners

He won't be drawn on who these could be but possible candidates may be Thebe Investments, Malaysian entrepreneur Landmarks Berhad and Real Africa Investments The purpose of reconstruction would be to gear up for legislative changes and to streamline applications for licences in conjunction with partners

Hawton says Rennies traded well to produce earnings growth of 13 2%, and points out that its results were actually better than reflected He says Rennies repaid R50m preference shares, which constrained earnings growth by more than R2m

In common with many market leaders, Safren is well off its R13,50 December high at R11,50 A historic 16,25 p e seems fair

Safmarine is unlikely to experience the same operating profit growth in financial 1996 International competition is becoming keener and imports may slacken unless SA experiences an unexpected runaway boom But it may sell more ships and impel profits that way

Kersaf could have a dynamic year if international tourism to SA continues its rapid advance So could Rennies, but to a lesser degree

Financial 1996 may see the 20% EPS growth some analysts were looking for in 1995 That would give a forward p e of about 13,5 If these surmises turn to truth, the share is attractively priced *Gerald Hirshon*

FM 22/9/95

MOMENTUM LIFE

Only Aegis disappoints

Momentum Life is something of a misnomer Life activities which with strong sales fuelled the 52% rise in premium income to R1,98bn, constitute the core, but a broad collection of businesses offer a wide spread of financial service interests

With one exception, the engine which powers the RMB Holdings group was firing on all cylinders in financial 1995

That exception was 50%-held Aegis Insurance Its 29% dip in earnings (10% of Momentum's total profits) trimmed the otherwise strong 31% increase in taxed profits from the life company, RMB Asset Management and Rand Merchant Bank (RMB) to earnings growth of 21%

This, in turn took about 5% off Momentum's EPS gain of 20% To put the results in perspective though they come off a high base — Momentum grew EPS by 43% in financial 1994

De Beers surges as Russian deal nears

CT(BR) 26/9/88 (216)

FROM REUTER

Shares in De Beers Consolidated Mines hit a four-month high on Friday on growing optimism the group was close to clinching a deal with Russian diamond producers

Economic analysts said the latest advance was triggered by a report in a local weekly magazine suggesting a behind-the-scenes deal was already in the bag

Securing Russian co-operation was vital to the stability of the diamond market De Beers shares rose to R100,25 on the JSE.

The Financial Mail quoted Russian sources as saying that De Beers' Central Selling Organisation (CSO), during talks in Moscow last week, had struck a deal with Komdragmet, the Russian state agency which controls marketing of precious metals and diamonds

It said Yevgeny Bychkov, the chairman of Komdragmet, told Nicky Oppenheimer, the deputy chairman of De Beers, that he was ready to sign a two-year agreement for sale of Russian rough diamonds to the CSO on the same terms as the existing contract

Talks were also reportedly held with producer group Almazy Rosii-Sakha

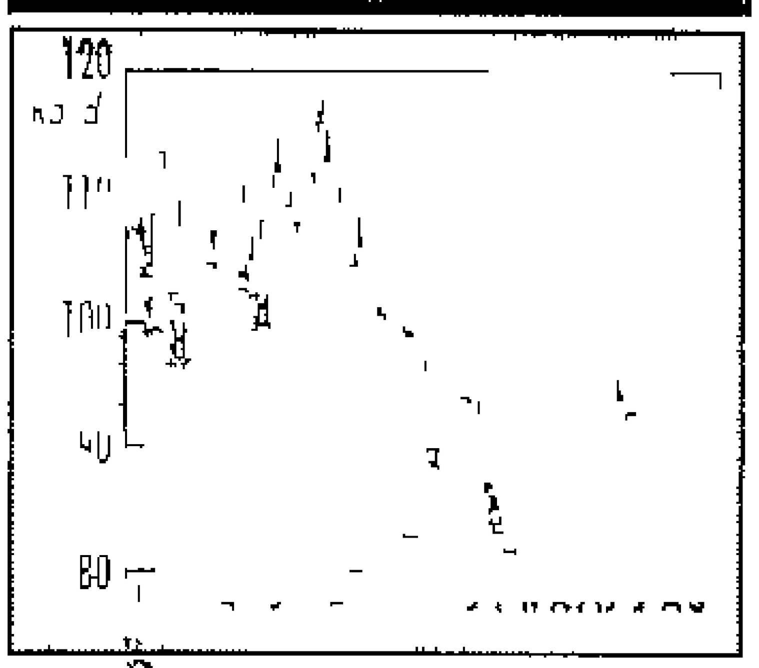
Analysts said it was impossible to confirm any deal, but believed a deal would be concluded before the current agreement expired on December 31 De Beers declined to comment.

"I have no doubt there will be a deal because both need it I think the story has a great deal of veracity," said an economic analyst

He added that De Beers stock was already looking cheap and the report provided a fresh excuse for it to move ahead

The existing deal gives the CSO rights to market Russian diamonds But Russian sales outside the CSO have been growing

Debeers share price



De Beers shares climb on JSE as Russians get ready to deal

BD 27/9/95

(216)

Michael Urquhart

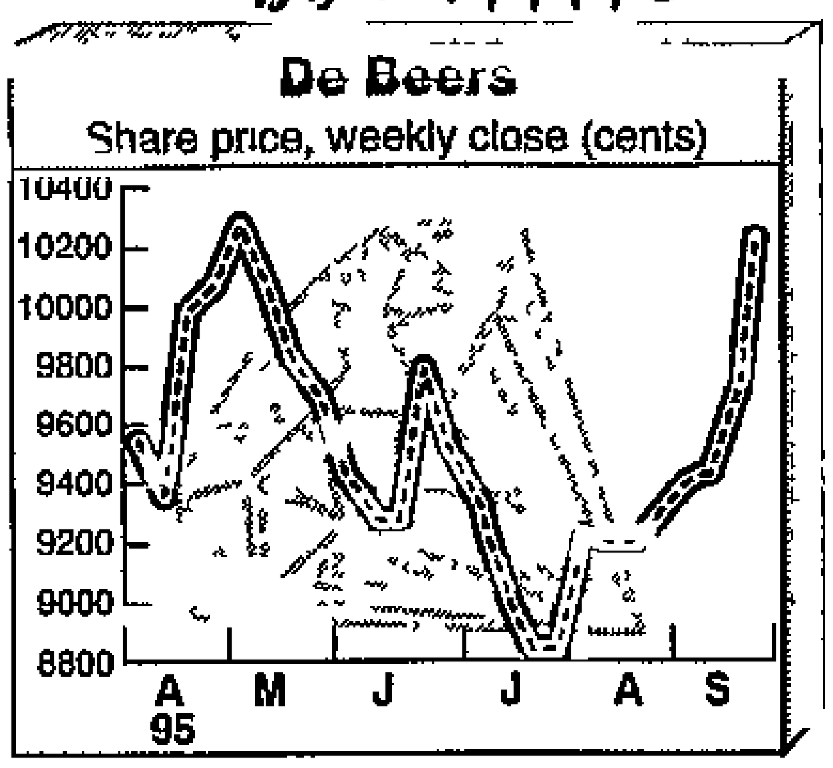
INCREASED confidence in the likelihood of a deal being concluded between De Beers and the Russians had seen De Beers return to favour with investors on the JSE, analysts said yesterday.

They said although there was no definite news coming out of Moscow or the London office of the Central Selling Organisation (CSO), there seemed to be a growing belief that a new contract would be completed between the two parties before the current contract expired at the end of the year.

This had seen De Beers' shares climb to R102,25 on the JSE yesterday, from a low of R79,50 in March. They touched a high of R106 in September.

The CSO, the diamond marketing arm of De Beers, has a contract with the Russians in terms of which it is supposed to sell 95% of Russia's rough diamond production output.

But news of leakages of Russian rough outside the CSO contract, which had dented confidence in the diamond market, had been reflected in a depressed share price.



Owen Ryan of stockbroking firm JD Anderson said the rerating of De Beers showed that the market was becoming more comfortable with the possibility of a deal being concluded. This had led to a re-rating of the group's diamond interests.

He said even though it was not clear what sort of deal was being structured, he was generally confident that sense would prevail and an agreement which would benefit both parties would be put together.

One analyst said he believed the deal might see a contract covering a shorter period than the current five years.

Fergusson Brothers analyst William Bowler described the tone of the Russian negotiations as "encouraging" and said he expected to see a deal before the end of the year.

He said it might be a bit much to expect Russian open market sales to disappear completely with the conclusion of a new deal, but these would hopefully be reduced and lead to increased confidence in the diamond industry.

A favourable demand picture, with the July and August sights better than the previous year and the September sight also likely to be higher, was also driving the De Beers share price. Most analysts had expected second-half sales to be the same as last year. The mix of sales had also moved to a higher quality, and this meant improved margins for De Beers.

Diamond mine will fight court ruling

(216) Star 2/10/95

Swissbourgh Diamond Mines is to challenge a Lesotho High Court expropriation order over mining leases it has lost while fighting a legal battle involving several court cases since 1991, managing director Joe van Zyl said at the weekend

This comes shortly after the Lesotho government's announcement that the joint Lesotho-South Africa Lesotho Highlands Water Project is to go ahead in spite of the controversy over one of Swissbourgh's disputed diamond lease areas

It is feared this area could become flooded by part of the water scheme in six months, depending on rainfall

The Lesotho parliament recently passed two pieces of legislation on the exploration of mineral rights in the project's area

In January, a decree declared by the former military government which cancelled certain Swissbourgh rights, was declared null and void by Mr Justice Ishmael Mohammed in the Lesotho Appeal Court

The court further set a July 31 deadline for Swissbourgh to conduct investigations and determine what damages, if any, it had suffered from the dam project

Van Zyl who claimed he has received death threats, was prohibited from entering Lesotho and suffered the destruction of R20-million of equipment during an arson attack – allegedly by the Lesotho military - The Star Foreign Service

Regional Resources to sell its top asset

CT (BR) 6/10/95 (216)

By Andy Duffy

Staff Writer

Regional Resources, the diamond company with deputy-president FW de Klerk's son, Willem, on its board, is in talks to sell its major asset after missing the targets set when it raised R2,2 million from the public last year.

The company said yesterday that the consultants, given R800 000 during last year's JSE listing to run the Kouewater Diamond Project, had pulled out.

Willem de Klerk

Another joint venture with a Canadian group had ended in legal action, and a string of sea concessions had gone sour.

Regional was now hoping to raise R3,8 million by selling its 80 percent stake in Kouewater to Australia's Moonstone Diamond Corporation.

But a large chunk of the deal hinged on selling Regional shares to Moonstone at R2 each.

The share — threatened with suspension last month — is valued at 30c, against its 100c listing price.

Accounts for the year to February — released this week — show Regional made a R1,17 million attributable loss, with shareholders' interests cut to R857 000.

The deficit was partially due to the R750 000 Regional put into Kouewater. Regional had also given Kouewater's 20 percent shareholder Minmines R320 000 cash and shares worth R480 000 in the listing to run Kouewater.

But the Minmines deal — described in the listing prospectus as "a most important aspect of the company's future prospects" — was terminated soon after the listing.

Regional said Moonstone would initially pump R400 000 into Kouewater.

If Moonstone decided to buy Regional's 80 percent stake, it would give Regional 10 percent of its shares — worth about R2,4 million — and would buy new Regional shares worth R1 million.

Regional would also be entitled to half the profits from diamond sales.

Production was expected to start towards the end of this year.

The proposal would be put to shareholders at the annual general meeting this month.

Regional was considering pursuing Canadian company Ivory Oils into the Supreme Court of British Columbia, after Ivory withdrew from a R2,4 million joint venture off the west coast.

☐ See Market Watch

DE BEERS & RUSSIA

Growing spirit of co-operation

(216) FM 6/10/95

Extending the diamond deal between De Beers and Russia may depend on Anglo American Corp's willingness to embark on a long-term investment programme in Russia

Deputy chairman Peter Gush popped up in Moscow last week He is the latest in a long line of Anglo and De Beers group senior executives who have been courting Russian officials Komdragmet chairman Yevgeny Bychkov (Komdragmet is the State committee for precious metals and gemstones) says that his discussion with Gush centred on a programme providing for Anglo to invest in Russian "diamond mining and gold " And this comes soon after news (*Fox* September 22) of Bychkov's offer to extend the agreement with De Beers' Central Selling Organisation (CSO) for another two years


Gush

It is possible to infer from this that the Russians intend to link the two issues Asked to respond, on his return to Johannesburg, Gush would only say "I'm not commenting on anything."

De Beers has long been anxious to resolve the simmering row between it and Russia, largely because Russian diamonds are of high quality, and Russia outside the CSO marketing arrangement would present huge problems Now the evidence is that the Russians want to conclude a new deal because they are well aware of how uncertainty damages the international diamond market Nevertheless, Russian officials are determined to get the best deal they can from the CSO.

This left Gush as the sausage in a Russian sandwich, caught between two groups of Russian civil servants, each with their own agendas Bychkov wants Anglo to develop the Lomonosov diamond deposit, near Archangel (1 300 km north of Moscow, close to the Arctic Circle)

Lomonosov is a grouping of five or six diamond pipes near the village of Pomorie, 80 km from Archangel. Sampling results and grade data remain State secrets. The big problem is that the ground is heavily waterlogged and the open pit would have to be unusually wide, eliminating vast forest tracts and threatening the local ecology

Bychkov, supported by Yury Guskov of Severalmaz, is opposed by mine licensing authority Roskomnedr deputy chairman Boris Yatskevich Yatskevich says "I'm a wholehearted ally of De Beers But if we invest the money needed for Archangel in Yakutia (which is where Russia's diamond mining is concentrated), we get two to three times more diamonds So why the hurry with Archangel?"

The trouble is the Yakuts don't want Anglo around Almazy Rossii-Sakha (ARS, the Yakutia diamond mining company) say they don't want and don't need Anglo investment in their diamond mines This stands in contrast with ready acceptance of Anglo money to finance the purchase of heavy earthmoving equipment a few years ago It could not be ascertained whether this has been repaid

ARS does want Anglo to get involved in developing oil and gas deposits and heavy minerals. The trouble is that these are in undeveloped far eastern Siberia, not the best area for large investment Another area Bychkov is anxious to encourage is gold mining — which he appears to have pressed on Gush last week Anglo's previous response is thought to have been cool, based on its perception that the best bet, the Nezhdaninskoye deposit in Yakutia, wasn't profitable enough

The key issue remains diamonds and the relationship between the CSO and Russia There are areas of continued dispute, such as the visible anger of ARS managers after the CSO announced its price cuts in July But some of this is window dressing because apparently shipments which would have been affected at the time of the reductions were paid for in cash by the CSO in advance Russian cash flows were not affected

This may suggest that the CSO and Komdragmet could be moving towards a mutually acceptable pricing arrangement for shipments to include a mechanism to take account of prevailing market conditions That may salvage Russian pride but may not do much else

What is becoming certain is that a new spirit of co-operation between the two parties is evident Russia's continued membership of the CSO now seems a foregone conclusion, especially if Anglo agrees to a Russian mining investment programme

John Helmer in Moscow and David Gleason

Permits for prospecting

(216) BD 6/10/95

THE mineral and energy affairs department said it had awarded prospecting permits to seven applicants to hunt for diamonds at extreme depths off the country's west coast

The successful applicants for the deep diamond concessions were Werner Deep Ocean Inc, Ocean Diamond Mining (SA), De Beers Consolidated Mines, Alexkor Ltd, South Atlantic Diamond Exploration, Nautical Diamonds and BHP-Benguela Nominees

Rights to a remaining seven areas would be granted when suitable candidates applied, the department said.

Most of the companies had indicated they would use existing navigation and exploration technology, based on deep-sea vessels equipped with sophisticated prospecting facilities.

One concern, however, was the possibility of using a submarine for surveying and remote control of equipment

The ultra-deep areas have not been tested for diamonds in the past and little is known about mineralisation of the continental slope areas. —Reuter

Strike spreads at De Beers mines

BD 10/10/95

Bonile Ngqiyaza

(216)

THE strike by about 5 000 diamond workers at De Beers mines was set to continue today after management and the National Union of Mineworkers failed to reach agreement on leave yesterday, a union spokesman said.

Production had been affected at mines as far away as Namaqualand and the Zimbabwean border, NUM spokesman Judith Weymont said

Talks between management and union representatives would continue today although it did not look like there was going to be a speedy resolution to the dispute She said the mining house had, at the start of talks yesterday, reverted to the position it held before last week, which had been "responsible for the strike in the first place".

The company's previous position had been 9% plus a 2% merit increase which was reduced to a 1% service increment plus 10%

She said although there was agreement on the 10% pay increase across the board, De Beers still insisted that "certain grades of staff workers reduce their entitlement from 26 to 21 days to match the rest of the workers".

De Beers spokesman Tom Tweedy said the company wanted to ensure that all employees received the same

Continued on Page 2

De Beers

(216)

Continued from Page 1

BD 10/10/95

annual leave benefits irrespective of the operation at which they worked.

He said the proposal meant working days would be increased by "up to three days" for employees in lower job categories while for those in higher job categories at the Venetia and Namaqualand mines it would mean a reduction by about five days to 21 days.

The 600 employees whose leave would be reduced would be compensated with a wage increase amounting to about 2% above the agreed wage increases, he said. Tweedy said the increment would increase the value of benefits such as "encashment value of leave, pensions, annual bonuses and other percentage-based benefits".

NUM assistant general secretary Gwede Mantashe said: "We are back where we started. They are giving workers two options: keep the 21 days but exclude Venetia and Namaqualand or just exclude certain grades of workers from the agreement." The strike had reached a "sensitive and dangerous point", he said.

De Beers, Angola discuss Cuando Valley's diamonds

(216) CT (BR) 12/10/95

By Cristina Muller

Reuter

Luanda — Negotiations on the mining of Angola's diamond-rich northern Cuando Valley were taking place between the Angolan government, De Beers and Brazil's Odebrecht, a diamond industry official said yesterday

"We have included De Beers in our negotiations over Luzamba in the Cuando Valley because of what it represents in the world diamond market," said Eduardo de Melo Pinto, the vice-president for mining at Odebrecht.

The talks come almost a year after a ceasefire accord signed last November by the National Union for the Total Independence of Angola (Unita) rebel movement and the Angolan government which largely halted the country's two-decade civil war

The Popular Movement for the Liberation of Angola (MPLA) government, led by President Jose Eduardo dos Santos, has proposed the creation of two vice-presidencies in a coalition of national unity and has offered Unita's Jonas Savimbi one of the positions

Diplomats say a threat by Dos Santos to launch a powerful military offensive in the Unita-controlled diamond region forced Savimbi to take part in talks on how the area should be run

The valley's diamonds are controlled by Unita and help to fund its guerrilla army, the disbanding of which is an integral part of the peace accord

"Talks (about diamond mining) are still in their preliminary stages, but the tendency will be to divide responsibility for the area in three equal parts, so we all take the risk together," De Melo Pinto said

A De Beers spokesman said the group was in the early stages of talks with the Angolan government and Odebrecht, but was not in a position to say what they entailed.

Odebrecht signed a revised 50 percent partnership deal with state-owned Endiama in June to resume exploration of Luzamba's estimated reserves of more than 5,5 million carats.

The Brazilian company operated in Luzamba during an 18-month break in the civil conflict until November 1992 and produced more than 550 000 carats, sold for $142 million, until Unita guerrillas took over the mines when the war resumed

"The contract for Luzamba has always been open to third or fourth partners and De Beers is a logical option considering its reputation," he said.

De Beers in talks over Unita-held diamond area

(216)

BD 12/10/95

LUANDA — De Beers had opened talks with the Angolan government and Brazil's Odebrecht on the mining of Angola's diamond-rich northern Cuando Valley, a diamond industry official said yesterday.

"We have included De Beers in our negotiations over Luzamba in the Cuando Valley because of what it represents in the world diamond market," Odebrecht's vice-president for mining Eduardo de Melo Pinto said.

The talks come almost a year after a ceasefire accord last November signed by Unita and the Angolan government

President Jose Eduardo dos Santos's government has proposed the creation of two vice-presidencies in a coalition of national unity, and has offered Savimbi one of the positions.

Diplomats say a threat by Dos Santos to launch a military offensive in the Unita-controlled diamond region forced Savimbi to take part in talks on how the area should be run.

The valley's diamonds are controlled by Unita, and help it fund its 62 000-strong guerrilla army, the disbanding of which is an integral part of the peace accord.

"Talks (about diamond mining) are still in their preliminary stages, but the tendency will be to divide responsibility for the area into three equal parts, so that we all take the risk together," Odebrecht's Pinto said

A De Beers spokesman said the group was in the early stages of talks with the Angolan government and Odebrecht, but was not in a position to say what they entailed

Odebrecht in June signed a revised 50% partnership deal with state-owned Endiama to resume exploration of Luzamba's estimated reserves of more than 5,5-million carats, 85% of it gem quality The Brazilian company operated in Luzamba in an 18-month break in the war until November 1992, and produced more than 550 000 carats, sold for $142m, until Unita took over the mines when the war resumed

"The contract for Luzamba has always been open to third or fourth partners, and De Beers is a logical option, considering its reputation," Pinto said.

Unita is said to have earned an estimated $250m through diamond smuggling in 1993 and 1994.

Odebrecht has a 20% partnership, with Russia's Almazi Rossi-Sakha and Endiama, dividing the remaining 80% to explore the world's fourth largest — and Angola's first — kimberlite quarry near the Lunda Sul provincial capital, Saurimo.

However, De Beers director in Angola Ken Kempson said diamonds from Cuando were not appearing on the open market in the quantities that might be expected. He said the gems were being stockpiled by Unita, or traded and then stockpiled. A third possibility was that the production was being sold to cutters, since polished diamonds cannot be sourced —Reuter.

Regional deal is restructured

(216)

Edward West

BD 13/10/95

CAPE TOWN — Australian-listed Moonstone Diamond Corporation had restructured its agreement with Regional Resources on the Kouewater diamond project after the publicity surrounding a recent court case, finance director Jason Alexander said yesterday.

Court action for Regional's liquidation was recently withdrawn with costs following the applicant's affidavit alleging that Union Mines chairman Nick Lotterie was the real applicant.

"Lotterie has claimed publicly he was worth R20m and if so, we will pursue compensation," said Alexander.

Regional said yesterday it could now quantify damages incurred by the court action, and compensation would be sought.

Regional said its 1995 annual report should be amended on the basis that if Moonstone exercised its option to purchase 70% of the project, the consideration to Regional would be about R700 000.

Share arrangements, as disclosed in the report, for Moonstone to buy 500 000 ordinary shares in Regional at R2 each and to issue Moonstone shares to Regional, were withdrawn by Moonstone due to the price of Regional shares, which fell to 20c from about R1 due to publicity surrounding the court action, Alexander said.

Regional advised shareholders to exercise caution as other events and negotiations were advancing which could affect the share price.

De Beers workers agree to end strike

BD 13/10/95 (216)

Renee Grawitzky

NUM members are to return to work today after an agreement was reached with De Beers to end a week-old strike in the diamond industry.

The dispute, originally relating to wages, a performance-related pay system and reduction of annual leave, was resolved when a compromise was reached on the issue of annual leave affecting higher-grade workers at Venetia and Namaqualand mines.

NUM media officer Judith Weymont said the strike did not affect production because of enormous stockpiles. She said it did not affect the release of diamonds onto the markets, which was pre-determined because of De Beers' monopoly.

The parties have undertaken to try and reach agreement on the reduction of leave at the two mines by December 10. If no agreement is reached the company reserves its right to implement the new leave entitlements with compensation while the union reserves its right to challenge this. The company has offered to compensate workers to the value of five days leave which would be lost with the reduction from 26 to 21 working days leave. The reduction of leave at these two mines was necessitated by the alignment and conversion of leave from calendar to working days.

All workers will receive a 10% pay increase with the union committed to negotiate a performance-related pay system by January 31 next year. Venetia mineworkers will receive 10% plus a 1% merit award increase instead of 9% plus a 2% merit award increase.

De Beers said it achieved a distinct benefit in extending the merit award system and the conversion of annual leave from calendar to working days.

NUM assistant general secretary Gwede Mantashe said: "Strikes are always costly but it has been worth it because we have been successful in putting pressure on De Beers to respond to our demands. We move forward to negotiate other issues such as merit awards from a position of strength."

De Beers miners go back to work

(~~213~~)(Z1L)

ARG 14/10/95

JOHANNESBURG. — All of about 5 000 employees involved in a 10-day strike at De Beers' diamond mines have returned to work, a company spokesman said.

"Attendance at the mines is normal and no problems have been experienced," he said.

National Union of Mineworkers (NUM) members went on strike on October 2 after six months of negotiations, when the union and De Beers failed to finalise an agreement.

However, further negotiations between the NUM and De Beers broke down this week over holiday leave for about 600 employees.

On Thursday both parties agreed that the outstanding issue of holiday leave for certain B grade workers at Venetia and Namaqualand mines would be discussed separately.

The NUM said the parties would attempt to solve the issue by December 10, after which, if no settlement was reached, the company would reserve the right to implement its proposal and the NUM would reserve the right to challenge its implementation.

Both parties would advise union members of the compensation the company proposed to pay to the employees for reduced leave.

De Beers said the compensation offered to the 600 employees would be equivalent to the monetary value of the five days' leave lost. — Sapa.

Inquiry into gem trade

BY ROSS HERBERT

STAFF WRITER

The Cabinet yesterday approved the appointment of a commission of inquiry into the South African diamond industry following "concerns" about a variety of matters, including "the role of De Beers"

Pik Botha, the minister of mineral and energy affairs, said yesterday in a statement that the terms of reference of the commission would be "to investigate and report on all aspects of the South African diamond industry"

"This industry is going through a decline The most important issue is whether we can make the diamond industry more economically viable," said Roland Darroll, a spokesman for the ministry He was unable to comment on the nature of the investigation into De Beers

De Beers spokesman Glenn Bryant said last night that the company welcomed the inquiry which would bring various allegations from some quarters against the diamond industry and De Beers into the open.

Botha said the commission would also look at the role of the South African Police Service's gold and diamond Branch and the police trapping system

Asked whether the commission was formed because of allegations of illegality, Darroll said that "there are a lot of people in the industry who feel that is the case and that will be investigated"

(216) CT(BR) 19/10/95

Regional plans a broader base

(216) ARG 28/10/95

MAUREEN MARUD
Business Reporter

REGIONAL Resources, the diamond exploration company, plans to broaden its base by searching for "whatever we think would be advantageous to the company," director Jason Alexander said yesterday.

That would include gold and base metals exploration. Shareholders have given their approval to the plan at a meeting in Cape Town, he said.

The company, which had hoped to raise R3,8 million by selling its 80 percent stake in Kouewater Diamond Project, had renegotiated a deal with its joint venture partner, Australian-listed Moonstone Diamond Corporation, Mr Alexander said

"We were offered R3,8 million by Moonstone, but they withdrew that offer due to litigation instigated by competitors," he said.

"We had to renegotiate the deal but we didn't come from a position of strength."

Moonstone now had an option to purchase 70 percent of the project, he said.

According to an advertisement Regional published recently, should Moonstone excercise its option to purchase, the consideration to Regional would be about R700 000.

Regional would capitalise its loan account into the project, leaving the exploration company with a potential but maximum 30 percent interest.

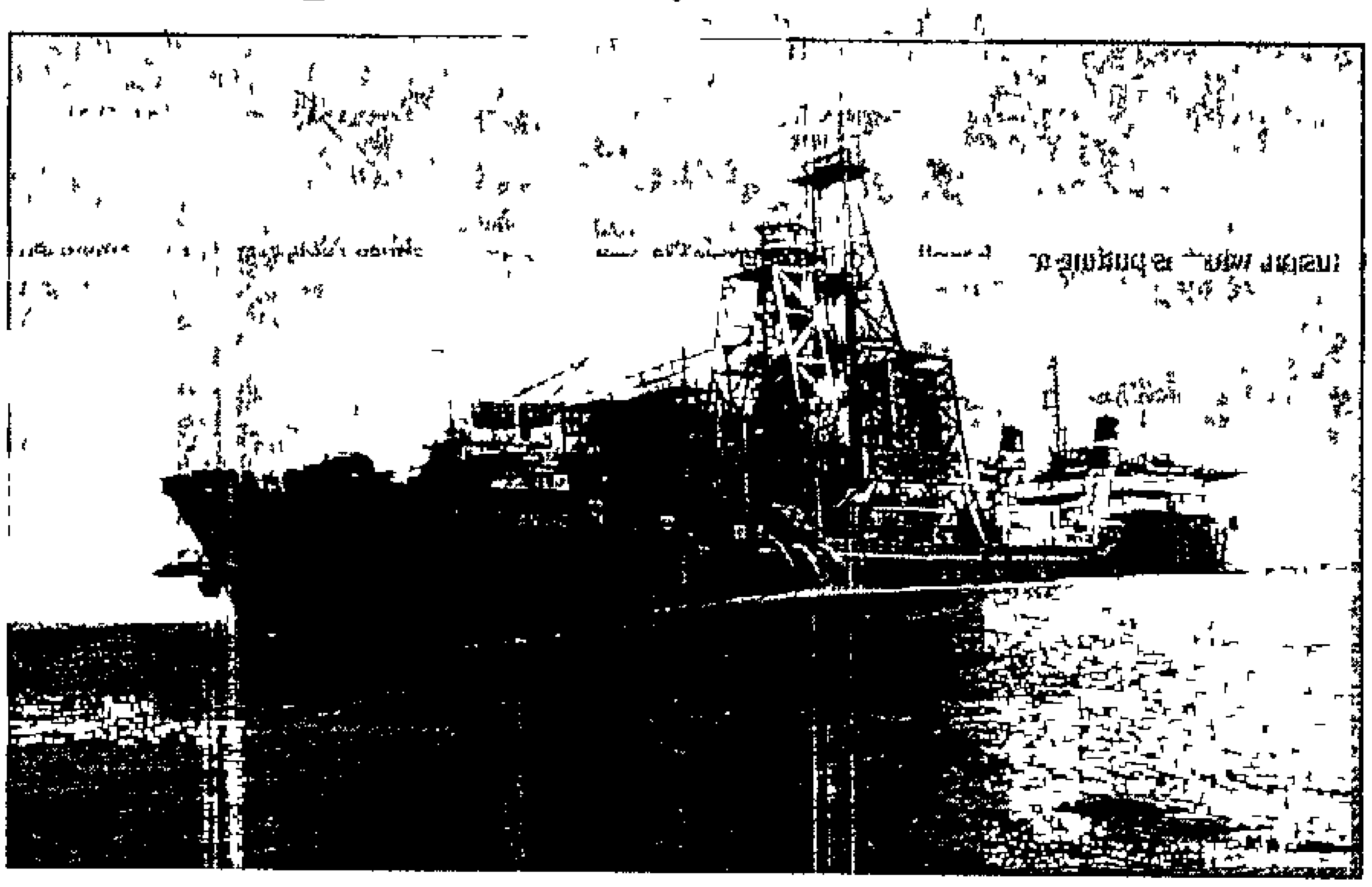
Moonstone would continue to carry the costs of the project to the bulk sampling stage.

Bulk sampling should be complete in late December or early January.

Diamond industry inquiry to examine role of the jeweller

(216)CT(BR)30/10/95.

By Jon Beverley



TECHNOLOGICALLY INTENSIVE *The Debmar Atlantic commissioned in July 1994 incorporates advances in marine-mining technology*

Durban — Any examination of the diamond industry that overlooks the role of the jeweller will be missing the vital role that discretionary spending plays in the whole pipeline that runs from milady's finger to the miner deep underground

Fortunately the government included a catch-all reference in the inquiry announced last week and the three-man team appointed to examine all aspects of the industry will be able to look at the role of the jeweller

The last commission of 1973 did not pay much attention to what happened once the polished diamond left the diamond cutter's factory

The last decade has seen the industry shrouded in secrecy, with only the mined volume being disclosed, whereas the values of diamonds mined, exported, cut and polished in this country were once freely available

This has made it impossible to analyse the health of the industry and impossible to explain the seeming anomalies

For example, the country produces just over 10 million carats of diamonds a year, about half of which, according to United States Bureau of Mines estimates, are gem quality

While the diamond cutting industry has the skill to process the larger diamonds, however, it lacks the ability to process the difficult-to-cut diamonds and its cost structure is such that it cannot afford to process the small diamonds

The number of home-mined diamonds that can be processed is very limited So much so, that whereas in 1970 suitable diamonds were extracted from local mined production and supplemented with consignments from London to give the cutters well over 1 million carats to process, the position has been reversed with foreign diamonds being imported

All the De Beers output is exported under the control of the South African Diamond Board and suitable parcels of appropriate diamonds are reimported for the cutting industry

Last year the cutting industry cut about 571 000 carats, down from the 1,5 million carats in 1989, according to Diamond Board estimates

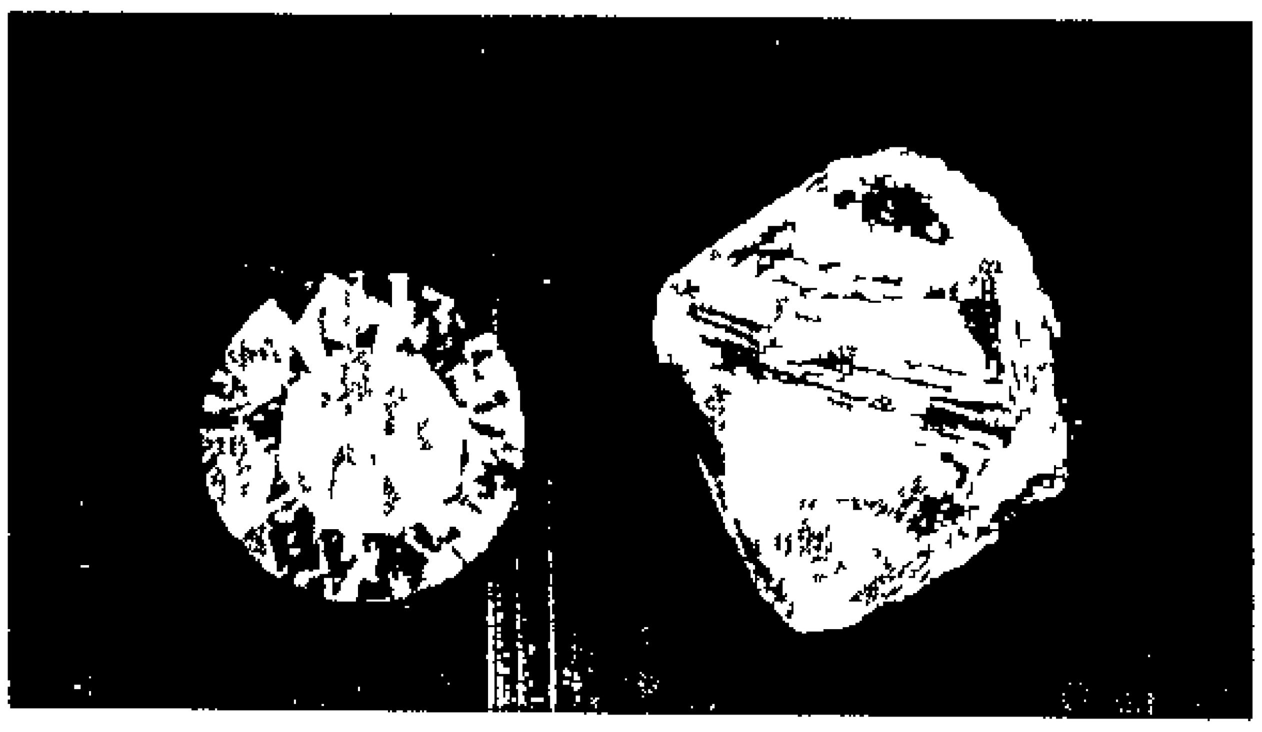
Although cutters have access to diamond production from non-De Beers sources, and while some of this is exported and sold in Antwerp, the results of the JSE listed diamond mining companies are not very inspiring in terms of profit

The Diamond Board recently opened the industry by lowering the entry barriers for cutters and dealers Previously they had to have substantial cash resources and be familiar with the operation of the industry — these are no longer prerequisites

Time will tell as to whether this was a good move

The cutting industry is becoming more capital intensive as technology is used to keep costs under control

A cutter, however, needs capital to buy stocks (there is no credit from the mines), be able to hold the gems while they are being processed and wait for a suitable buyer In today's market, where diamond sales are not flourishing, this means tying up a fair amount of capital



TREASURE *The skilled cutting of a raw diamond enhances its value*

The Board's move has seen the entry of "previously disadvantaged persons" into the industry At the last count in March this year the Minerals Bureau listed 169 cutters and 58 diamond dealers — but some double counting is involved and actual numbers are lower

About 60 one-year licences have been granted with another 20 under consideration

There are suitable candidates among these newcomers

At the time of the last inquiry the diamond cutting industry was not particularly profitable and it is doubtful whether the situation has improved materially since then

The past decade has seen the industry shrouded in secrecy, with only the mined volume being disclosed

Nor is the diamond mining industry especially profitable De Beers is in good shape, but that is not simply because it mines diamonds. Of the others only Transhex gives shareholders hope — the rest, Carrig Diamonds, Consolidated Diamond Corporation, Regional Resources, Zenith Concessions, Benguella Concessions and Ocean Diamond Holdings make money for their shareholders only because the share price fluctuates strongly

In the South African context the diamond industry, apart from De Beers as a major mining company, has not been profitable enough in the long term to attract capital investment

The government has taken steps to encourage cutting

Back in 1915 it imposed an export duty in an effort to make it more profitable to cut here, in 1928 it started a cutting and polishing works in Kimberley and trained 500 South Africans in the craft

But despite these, and other measures, growth in diamond processing has been relatively insignificant Strangely non-mining countries like Israel, Belgium, Russia, India and America have created and built massive diamond cutting industries

There are reasons for this and the inquiry should discover why it becomes difficult to apply the same techniques in this country

But the end of the line — the sparkling diamond set in gold and lying in the jewellery shop — should provide one key

A 1990 study by the Department of Mineral and Energy Affairs shows how a diamond cutting firm could buy an uncut diamond for about R330

But with a 10 percent mark-up by the cutter, a 5 percent fee for the polished diamond dealer, a 30 percent mark-up by the gold jewellery manufacturer and a 75 percent mark-up by the jewellery retailer, the base price would reach about R1 442, and by adding VAT, the cost would rise to about R1 644

The study said the jewellers' 75 percent mark-up is conservative — data indicates that it can range between 50 percent and 150 percent

While there are good reasons for the sort of mark-ups indicated, the result is that much jewellery is priced out of the pockets of the general population

Until the buying power matches these levels the demand for diamonds and the stimulation of the diamond industry in this country is not likely to happen

These are just some of the things which need to be looked at

Doubtless the inquiry will pinpoint matters such as cutters having to pay VAT on goods they will be exporting

EVENTS in Moscow have been the driving force behind De Beers' share price for more than a year, and still market watchers have to resort to speculation rather than firm evidence to take a view

DIAGONAL STREET

Russians may be looking to De Beers for help

(216) BD 6/11/95

Depending on who is speculating, De Beers is either close to signing a deal to bring the Russians back into the Central Sales Organisation's fold, or it is close to shelling out at least $500m to help the Russians dig for more gems

Either way, the share is range bound, with investors seemingly unaffected by the latest spate of sights

Analysts placed the CSO's October/November sight at $350m, which they said was at the top end of most market expectations October sights traditionally are small "If the retailers have not bought their rough diamonds by now, they have little chance of getting them out into the market," an analyst said

But preceding months' sales are believed to have exceeded expectations on the back of CSO's price cuts in July.

The CSO sales, which will be announced early in January, were expected to show a 6% year-on-year rise to a record $4,5bn "Record sales are in the can. The only question is how much they are going to be above $4,5bn," Ed Hern, Rudolph analyst Barry Sergeant said.

Recent reports that State Committee for Precious Metals (Komdragmet) chairman Yevgeny Bychkov wanted De Beers to invest between $500m and $1bn in a Russian mine have raised hopes that an agreement between the two is closer that it has been for some time

Sergeant believes the Russians could be looking for funds to develop new pipes in the face of falling production and a depleted stockpile

The Russian diamond industry has run its production down from a peak of about 25-million carats in the late 1980s to 7-million carats, he said

"The three main producing pipes in Russia have been in trouble over the last few years and the mine which accounts for about 85% of current production is coming to the end of its life," Sergeant said. "There is no question that they have to recapitalise "

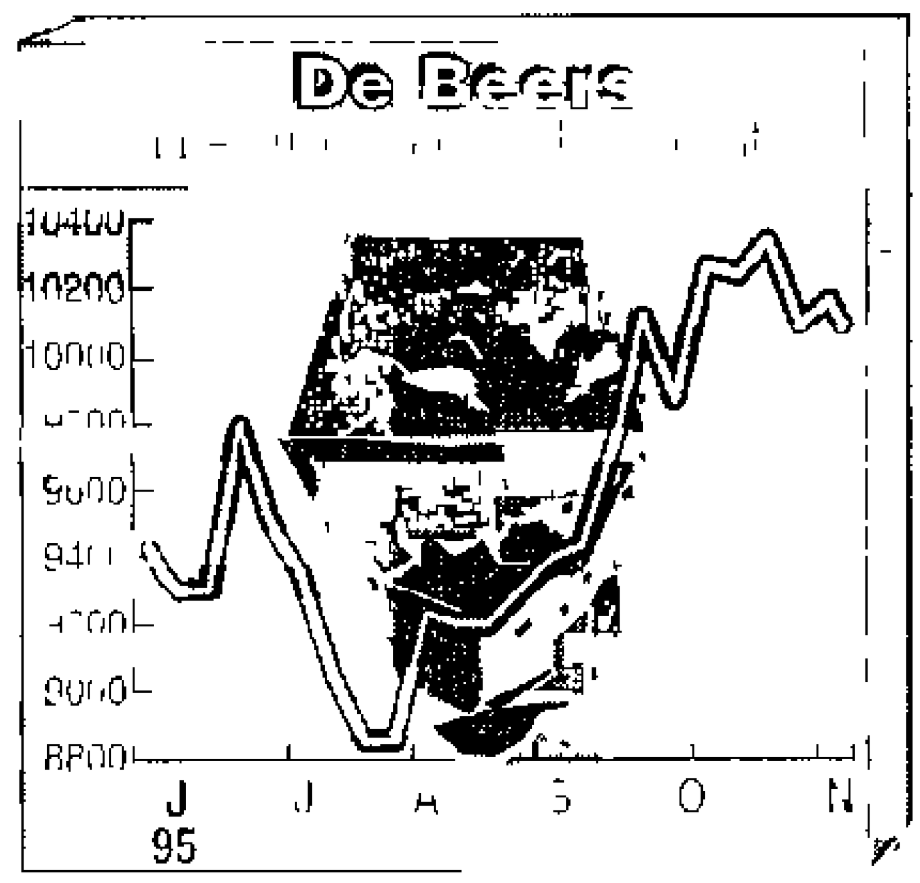
In the area of Archangel — about 1 300km north of Moscow — there were known to be five pipes containing 250-million carats with a gem content approaching 50% "Two of these pipes appear to be economically viable," he said

The stockpile which the Russians have been running down outside the CSO agreement might also be reaching the end of its life

At the interim results presentation in August, De Beers chairman Julian Ogilvie Thompson said the group had noticed a swing to poorer quality diamonds in Russian sales

Belgian export figures for the first half of the year show exports to Antwerp of 2,850-million carats, worth about $40,5m

"That would mean they were exporting diamonds of an average value of about $14 per carat, which is way below what can be described as quality stones," he said



The possibility that there has been a decline in Russian virgin production and that it is coming to the end of its stockpile puts De Beers in a very strong bargaining position

In recent weeks the share has risen from a low of R91 when interim results were released on August 16, to a high of R106 on October 19 following the settlement of a wage dispute with the National Union of Mineworkers On Friday the share lost 75c to R101 on turnover of R10,64m "With the prospect of higher sales and with the Russian uncertainty already built into the share, it looks like it has good upside potential," one analyst said

Paul Richardson

Minvest to upgrade its diamonds

(216) CT (BR) 7/11/95

BY JON BEVERLEY

Durban — The grade and quality of diamonds mined at Minvest's two operations are to be improved as mining moves to higher-grade areas, chairman ADS Buchan said in the company's annual report.

Results for the year were badly affected by declining grades The company also restructured its operations and retrenched staff.

Results at Messina Diamonds were already encouraging and management hoped to be able to report on positive progress at the Star mine in the December interim report.

Management was budgeting for a "substantial improvement" in earnings for the current year, although not to the record levels of 1994, when earnings of 69,5c were recorded, said Buchan.

The past year saw earnings of 21,6c.

The copper prospect in Botswana had shown significant progress with a second prospecting licence obtained and a mining lease application lodged

An overseas partner is to fund the project to a "bankable feasibility study level" and earn a majority interest

The Bushman pits diamond prospect in Botswana was drilled at a cost of R269 000 but no kimberlites were found and the joint venture was terminated

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Diamond miner confident of new mine potential

(216)

CT (AR) 8/11/95

FROM SAPA

Bulawayo — Zimbabwe's sole diamond mining company, Auridiam Zimbabwe, said yesterday initial work on its exploration sites had shown potential for another diamond mine, Ziana news agency reported

Exploration manager Mike Brennan said the company h[illegible] [illegible]overed about 50 percent of its exclusive prospecting orders and was encouraged by the results.

"We have had a lot of positive indications and we are confident we are going to strike some deposits," Brennan said.

The company has 10 exclusive prospecting orders for diamonds in Zimbabwe's mining districts

The orders, which cover 5 million hectares, were issued for two years which could be extended. Five more applications were awaiting approval by the mines ministry

"At present, we have eight exploration teams mainly doing reconnaissance work. The next stage is to invest more to allow for further professional exploration," Brennan said

Auridiam Zimbabwe made an initial investment of Z$5 million in exploration

The company is owned by Auridiam Consolidated of Australia and Reduram Red Lake of Canada

CSO putting price of quality gems up 5%

Michael Urquhart (216)

BD 9/11/95

DE BEERS' Central Selling Organisation is to raise high quality gem prices an average 5% — the diamond cartel's first overall price rise since early 1993.

The increase, taken by analysts to be another sign of recovery in the market, followed improved retail sales, particularly in Japan, and improved sentiment, a De Beers spokesman said yesterday. The CSO had no plans to relax diamond producers' quotas

The price rise, to be implemented on November 28, would cover gems of two carats or more Analysts said this should mainly benefit producers in Botswana, Namibia and SA

Market sources said the CSO had been holding back higher quality rough gems to build up demand and allow a price increase

The CSO last lifted overall prices 1,5% in February 1993. It cut lower quality stone prices 10% in July in a move widely seen to have targeted illicit gem sales in Russia, while increasing some higher quality gem prices, negating an overall price move.

Analysts said the higher prices would bring CSO prices into line with outside markets and would curb the practice of buying from the CSO and selling on for a profit

De Beers' share price gained 225c or 2,2% yesterday to close at R104,50.

De Beers to raise price of bigger gems

(216) CT (BR) 9/11/95

BY NEIL BEHRMANN

London — The De Beers Central Selling Organisation (CSO) is raising the prices of its larger, expensive diamonds by 5 percent.

The price hike, which applies to diamonds weighing two carats or more, will take effect from November 28. Prices for all other categories remain unchanged.

A De Beers spokesman said that demand for top-range diamonds was strong in America and Europe, and was improving in Japan. Antwerp diamond dealers were puzzled by the price rise and the timing of the announcement.

"Purchases for the Christmas season have already taken place," said Jacques Zucker, the director of Beldiamex Antwerp diamond dealers. "So why did De Beers not announce a price increase in the buying season of September and October?" Zucker and other dealers suspect that the price increase is connected to negotiations between De Beers and Russia.

De Beers is trying to persuade the Russians, the leading producer in terms of value, to sell the bulk of their diamonds through its producer cartel, the CSO.

Its five-year agreement with Russia expires at the end of the year. Although the market believes that there will be a deal, there is considerable uncertainty about the terms.

Under the current agreement, De Beers is supposed to control 95 percent of Russia's diamond exports. This allocation amounts to roughly a quarter of the CSO's total annual sales.

In practice, a much larger proportion of diamonds, mainly from the Russian treasury's huge stockpile, is being sold independently

Diamond war looms in wake of price hike

(216) BD 10/11/95

Michael Urquhart

DE BEERS said yesterday it was puzzled that its recently announced price hike in rough diamonds had been strongly opposed by the Russian diamond industry

Reuter reported from Moscow that Leonid Gurevich, deputy head of Komdragmet, the state committee for precious metals and stones, said Russia's diamond industry was ready to "wage war" over the price hike.

Gurevich said that at issue was De Beers' decision to raise the price of rough diamonds of two carats or larger by 5% with effect from November 28 He said the move had not been discussed with Komdragmet, and was aimed at damaging Russia's diamond polishing sector Prices at London sights had risen 5% some time ago, Gurevich said

He added the move by De Beers would complicate talks the two groups were scheduled to hold in December.

But a De Beers spokesman said the group had discussed the price increases with all the producers, including the Russian diamond producer Almazy Rossi-Sakha He thought the price increases were a positive move, and all producers, including the Russians, would benefit from the adjustment.

He said cutters in other centres such as Antwerp and Tel Aviv seemed to have welcomed the price increases as they were likely to be followed by an increase in polished prices as well.

Prices at Central Selling Organisation sights had not risen some time ago as claimed by Gurevich, he said

Rankin ... *contemplating how to get around exchange control*

AMCOAL (216) FM 10/11/95

A gift horse

These are unusually good results, in real terms the best in this important coal producer's 20-year life Amcoal's latest interims confound many analysts' expectations

Chairman Dave Rankin is dryly understated when reviewing the company's performance, though it is difficult even for him to deny modest satisfaction Amcoal's bottom line of R323m is only 0,6% off being 100% better than 1994's interim result of R162m It is within stretching distance of the full 1995 financial year's outcome of R390m — all of which demonstrates the extent to which the world coal business has shed the orphan image painfully acquired over the past five years

Amcoal's EPS of 1 284c compares with last year's 644c at the same stage and 1 547c for the full financial year ended March 31 The balance sheet reflects Amcoal's new role as Anglo American Corp's money-bags its cash pile is now a colossal R1,2bn

There is — would you believe it? — a short-term, noninterest-bearing loan of R153m but that barely raises a blip on a financial structure of this strength Much of the good news is sourced in buoyant international demand and, therefore, in the rising price global consumers are willing to pay This emphasises the importance of the Richards Bay Coal Terminal, privately owned and developed by the country's main producers This year, Richards Bay will handle about 57 Mt of export coal against an estimated capacity of 60 Mt Another expansion for a modest R8m will remove bottlenecks and enable the facility to handle 63 Mt

BURNING BRIGHT

Six months to	Sep 30 1994	Mar 31 1995	Sep 30 1995
Turnover (Rm)	1 060,7	1 200,8	1 391,9
Operating income (Rm)	290,5	381,2	480,7
Attributable (Rm)	162,2	227,6	323,4
Earnings (c)	643,7	903,4	1 283,6
Dividends (c)	180	480	300

The next logical step will be to expand capacity again, though Rankin points out no decision has yet been taken The discussion taking place among members now is whether to increase to 69 Mt or 72 Mt Whichever, it will be expensive Rankin is silent on capex cost but it is believed it could be as much as another R180m

Meanwhile, the world seaborne coal trade seems likely to go on expanding at 3% a year for the next 10-15 years Rankin says it is unlikely SA's industry will grow commensurately because it depends on the Witbank area as the supply source for its export quality coal and there are limits to expansion

Nevertheless, there will be some domestic growth opportunities Amcoal already holds the contract to supply coal to Eskom's next main power station, expected to be initiated soon after the turn of the century Between now and then, three mothballed stations may be resuscitated (Komati, Grootvlei and Camden) and two old stations (Kragbron and Ingagane) have been offered for purchase and operation Where the coal will come for these is unclear. Finally, the coal supply for the second stage

of Majuba station has not yet been finalised and the competition is between Ingwe (which supplies the first stage generators) and Amcoal Amcoal has now become so large and cash-rich that the inevitable question is how it makes use of its vast cash resource Simply paying taxes is unsatisfactory And there are discernible limits to the extent of further growth in SA

Moving offshore to compete in the international arena is a logical extension Amcoal is the repository of Anglo's substantial coal mining expertise and is the obvious partner in any energy development programme the group undertakes The problem remains the exchange control barrier, no longer as formidable as before but still a significant hurdle Rankin confirms the company is involved in looking at some prospects but says none of these matches Amcoal's criteria

The short-term prospect is that the company will reproduce the first half's performance If so, EPS for the full year will be about 2 550c With the share price now at R250, this puts it on a forward p/e of 9,8 in a sector with an average historical rate of 14 That Amcoal should be so downrated is illogical but it certainly makes it look like a gift horse

David Gleason

DE BEERS & RUSSIA (216)

Down to the wire

FM 17/11/95

As midnight approaches so evidence of fractures in the Russian camp becomes more visible

Not that all is plain sailing on the De Beers side either, as the recent price increase for larger goods indicates Analysts now say the Russians have succeeded in bringing home to the Central Selling Organisation (CSO) the message that the price cuts in smalls and mediums announced in June have caused surprising pain and anger

The cuts were accompanied by accusations and counter-charges, with the Russians declaiming De Beers was violating the contract and De Beers retorting that the Russians were cheating by selling smalls into the market behind the CSO's back

At stake is the continued relationship between the Russians, producers of some of the finest gemstones, and De Beers, the international market maker Their supply agreement is due to expire at end-December and most of 1995 has been punctuated by outrageous sparring as the two shape up for the final negotiating sessions to define the boundaries of a new deal

There is now consensus that both sides recognise they need each other, while the decibels have declined as reality sets in, it hasn't stopped the jostling

Negotiations are due to resume in SA at the end of this month when the Russian State Committee for Precious Metals & Gemstones (Komdragmet) chairman, Yevgeny Bychkov, arrives in Johannesburg. Moscow sources confirm he will be part of a delegation headed by First Deputy PM Oleg Soskovets Bychkov and Soskovets are known not to get along famously but Komdragmet executives say they invested heavily in briefing Soskovets ahead of the Johannesburg talks

Meanwhile, one of Bychkov's many deputies, Leonid Gurevich, responded to the price increase by claiming "it is a continuation of the pressure of De Beers on Russia" What De Beers is actually doing, says Gurevich, is to cut into the profitability of Russian cutters by forcing up the price of larger diamonds before they are cut. No wonder the CSO managers are bemused at what they have to do to get things right

Still, Gurevich's claim may have substance, though not quite in the way he means There is puzzlement in London at Gurevich's claims However, the price increase in larger, better quality gems reflects a shortage in the market Some dealers are convinced that shortage has been manufactured by De Beers

"It's logical, in a way," says a Johannesburg broker. "De Beers must have been looking into its stocks and concluding it doesn't have an infinite supply of these stones Feeding them into the market more slowly is simply prudent That pushes up demand and justifies the price increases But the CSO can hardly be blamed if that pushes up prices for Russian cutters"

Anderson Wilson analyst James Picton believes the latest price rise isn't "warranted by market conditions" He says the move is an attempt to "pacify" the Russians and concludes that "a deal with them is now that much closer"

While dealers concede the CSO has contrived the shortage of rough in recent weeks, this doesn't explain why the Russians couldn't find buyers themselves. It has the appearance of a three-card trick

There is also agreement among analysts that the latest price move is a way of signalling to the Russians that some fat rewards lie around the corner — perhaps for new mine production rather than for stocks — if the agreement is signed and sealed

It may also indicate yet again that De Beers has come to the view, reluctantly perhaps, that the low end of the rough diamond market is about commodities, the upper end is about something unique and scarce "After all," says an analyst, "this is why the CSO was set up — to market and sell real gemstones, not brown sugar" (a scathing reference to Argyle diamonds)

It all bears out the *FM*'s earlier prediction that agreement on a new deal is likely to go down to the wire

John Helmer in Moscow and David Gleason

New diamond body planned

(216) BD 21/11/95

MOSCOW — Russia wants to set up a centralised state-run organisation to oversee its diamond sector and co-operate and compete with multinational gem giant De Beers, a senior industry official said

State Committee for Precious Metals and Stones deputy head Leonid Gurevich said the organisation would ensure stability on world markets by controlling the flow of Russian gems to the West

"The new body would conduct normal, healthy competition with De Beers' Central Selling Organisation," he said.

The organisation — modelled on De Beers' CSO in London — would link all domestic producers, grinders, polishers, cutters and traders and would organise an internal market

However, it would still trade with De Beers' CSO —Reuter

North Cape diggers to get De Beers land

BD 22/11/95 (4??) BD 22/11/95 (216)

Sello Motlhabakwe

DE BEERS has agreed in principle to release mineral-bearing land to Northern Cape small claims diggers in a move to create jobs and promote economic upliftment in the region.

The group said yesterday that it had agreed to sell farms in Kommagas and Richtersveld in Namaqualand to the local council, after talks this week between deputy chairman Nicky Oppenheimer and the provincial government.

No price details were released.

Northern Cape mineral and energy affairs department adviser Anwar Carawan said that the land had been deemed uneconomic for large-scale mining. The land was not specifically diamond bearing but was suited to agricultural development, he said.

The National Parks Board had also been asked to release land in the Vaalbos National Park outside Kimberley to small miners.

Further talks were scheduled with other mining groups in the region.

Carawan said the moves were in line with the province's plans to create jobs and bolster economic activity by making mineral-bearing land not processed by mining houses available to small miners.

The provincial government would assist with expertise and help bring in donors to sponsor projects.

Mining houses had pledged they would second technical staff to the mineral and energy department to help small miners to prospect their claims, he said. Some had offered geological data on the viability of small-scale mining on some of the claims.

Carawan said other groups had also pledged to help, including Rismac, an association of statutory organisations on which the SA GeoSciences Council, Mintek, the SA Medical Council the National Parks Board and others are represented.

A wide-ranging agreement with Rismac covering agriculture to human resource development would be signed later this year.

Mintek said it would donate mining equipment to the small claims diggers while the GeoSciences Council would contract private geologists on the small miners' behalf.

Carawan said the moves tied in with the process of restructuring the state-controlled Diamond Board.

He said plans to establish an organisation for small miners which would facilitate liaison with government were progressing well.

Record sales for De Beers

CT(BL) 22/11/95 (216)

By Neil Behrmann

London — Diamond sales of De Beers' Central Selling Organisation are forecast to reach record levels this year

A trade magazine, Diamond International, forecast that sales could reach $4,5 billion (R16,5 billion) The figures, due to be published early next month, would compare with last year's turnover of $4,25 billion and a previous record of $4,37 billion, achieved in 1993

Marcel Pruwer, an Antwerp diamond dealer and consultant to New York dealers Rappaport, said that sales could exceed $4,5 billion

Diamond International and some traders were confident of record sales, even though De Beers and the Russians appeared to be no closer to forging a new marketing agreement.

De Beers' accord, whereby the Russians are required to sell 95 percent of their exports or $1,1 billion of diamonds to the cartel, is not working

Since about $1 billion of excess Russian supplies have flowed to cutting centres at an annualised rate, the market has been flooded, and mixed results have ensued.

Prices of low quality diamonds have tumbled and the market for medium range diamonds has been flat

The only buoyant area has been the top end of the market and as a result, De Beers was able to raise prices by 5 percent recently

ODM results turn loss to profit

(216)

ARG 24/11/95

Levels expected to be maintained

Business Editor

OCEAN Diamond Mining has produced glittering results for shareholders at the half-year mark, turning a loss of R541 000 into a profit of R1,99 million

Managing director Andre Louw attributed the better performance to the commissioning of the group's mining vessel, Namibian Gem.

The group's other vessel, Oceandia, and the Luderitz based shallow-water operation, had also contributed to profits in line with ODM's objectives

Operating profit of R930 000 (compared with a loss of R733 000 last year) was swelled by higher net interest revenue of R1 million

Mr Louw said production levels should be maintained in the second half.

ODM's negotiations with the BHP-Benguela Joint Venture about possible collaboration on their concessions had now been "amicably terminated", he said

The talks, begun in 1994, nearly reached a conclusion in July, but the two groups told shareholders in August that it was unlikely a deal would be struck in the short term

Since then BHP had reduced its interest in the Joint Venture with Benguela.

Mr Louw said ODM had been awarded a new prospecting permit off the west coast.

No dividend has been declared.

■ **Mathieson and Ashley** warned it would post a loss for the year ended September. Losses from the OfficeMart subsidiary were higher than expected, the group said. OfficeMart had lost about R5 million as a result of white-collar crime and theft in the past two years. Twenty employees had been dismissed and the police were investigating.

■ **Omni Media Corporation** beat forecasts in the six months ended September, reporting attributable profit of R46,8 million, compared with last year's loss of R18,3 million. But the group warned that the increase in the second half would not be as high, because losses from Multichoice, which reduced year-ago profit levels, would no longer be taken into account

Diamonds may not be forever for Russia

(216)

MtG (BM) 24-30/11/95

Dan Atkinson in London

RUSSIA'S multi-billion dollar strategic diamond reserve — suspected as being the source of huge unauthorised sales in world markets — is thought to be running out of mainstream gems

Two years of heavy selling have left the stockpile, whose value has been estimated at between $4-billion to $8-billion, with stones at extremes of the price range

At the bottom, the reserve — built up in the days of the Soviet Union — is dominated by low-value diamonds and, at the top, by items weighing 10 carats or more

The gradual exhaustion of the stockpile's mid-market gemstones may strengthen the position of diamond specialist De Beers, at present in tough negotiations with Moscow over continued Russian membership of De Beers's worldwide diamond-industry cartel, the Central Selling Organisation (CSO), which markets about 80 percent of all stones.

Russia's contract with the CSO expires next month, as the world's second-largest diamond producer, producing 25 percent of all diamonds by value (De Beers itself is the largest, producing half), Russia could plunge diamond markets into chaos were it to walk out on the cartel.

Already, "unauthorised" stockpile sales are thought to have accounted for half-a-billion dollars in 1993 and perhaps $1-billion last year. Not only has this has soured relations between De Beers and the Russians, but has also threatened to destabilise the careful system of price-rigging through which De Beers has managed to ensure, since the 1930s, that diamonds keep their value

Although it is entirely possible that the negotiations will run on into next year, many believe a deal will be done. "The Russians would no more break with De Beers than fly," said an industry insider. — *The Guardian*

Trans Hex reports R18,9 m profit

(216) ARG 27/11/95

Business Staff

REMBRANDT-controlled Cape-based diamond and industrial minerals group Trans Hex produced shareholders' profits of R18,9 million for the six months ended September

The restated comparative results for the period last year show a loss of R22,2 million owing to a R42,3 million extraordinary item now included as an exceptional item in line with a new accounting standard

The latest results include a R1,2 million loss for an exceptional item Earnings a share are 125,5c with a dividend of 34c, 1c up on a year ago

Turnover dropped 11,6 percent from R145,1 million to R128,2 million for the period

Trans Hex said its Namaqualand operations continued normally during the period with the new plant at the Jakalsberg section of its Reuning operation fully productive in June.

Marine production exceeded budgeted levels Low prices for diamonds produced at the three kimberlite tailings treatment plants in the Barkly West and Boshof districts reduced margins.

Exploration activites at the Orange River produced encouraging results

Capital expenditure for the full financial year was estimated at R13,4 million (1995 nil) and exploration costs R9,9 million (R4 million), the Trans Hex board said.

Of the company's foreign activities, the board reported that the Dokolwayo open-cast kimberlite mine in Swaziland continued production according to plan.

Foreign exploration in the Central African Republic and Zimbabwe produced diamonds valued in excess of $200 (R730) a carat

Trans Hex has halted its kimberlite search in Zimbabwe, but preliminary geological surveys have been completed in Namibia, Brazil, Zaire and Canada Drilling and bulk sampling is planned for early in the next financial year.

The listing of Trans Hex's foreign exploration projects on the Canadian Stock Exchange is set for early in the new financial year. This company will be known as Trans Hex International and will fund feasibility studies and development at foreign projects.

Foreign capital expenditure for the full year is estimated at R4,7 million, equal to last year, and exploration costs at R13,1 million (R1,9 million).

Trans Hex said the benefits of the restructuring of its industrial minerals operation would only be seen in early 1996 During the period, Trans Hex disposed of its tile adhesives business after overcoming objections from a Hong Kong associate

Russian diamond agency will challenge De Beers

(21b) CT(BR) 27/11/95

FROM AP-DJ

London — Russia is planning to start its own diamond cartel agency, a move that threatens the long-standing monopoly of South Africa's De Beers Central Selling Organisation (CSO)

A Sunday Telegraph report yesterday said that the Russian organisation would only deal in polished diamonds for the domestic market, but the risk of Russian diamonds seeping on to the world market would increase

The CSO is responsible for the sale of 80 percent of the world's diamonds Russia supplies 25 percent. De Beer's sells 95 percent of these Russian diamonds but a five-year marketing agreement ends this year and a new agreement has not yet been reached

Oleg Soskovets, Russia's deputy prime minister, arrived in Johannesburg yesterday and will meet De Beers' directors this week

Moscow will host diamond talks

(216) BD 28/11/95

Michael Urquhart

RUSSIA and De Beers would continue negotiations on a new diamond marketing deal in Moscow following talks in SA on Sunday between the diamond giant and a Russian delegation led by Russian Deputy Prime Minister Oleg Soskovets, De Beers said yesterday

The Russian party included representatives from Russian diamond producer Almazy Rossii-Sakha and Komdragmet, the agency which markets Russia's precious metals and stones and which controls the country's diamond stockpile

According to a current agreement between the Russians and De Beers' marketing arm, the Central Selling Organisation, Russia is supposed to sell 95% of its rough diamond production through the CSO.

However, there has been ample evidence of Russian sales outside of this agreement, which have lead to depressed diamond CSO sales despite an upswing in the economy.

The agreement expires at the end of the year, and the stability of the diamond market is believed to revolve around the successful conclusion of a new agreement.

De Beers said discussions on Sunday had concentrated on general principles of a new agreement Although discussions would be continued in Moscow in December, no date had been set

Reuters reports Soskovets told a news conference his delegation and De Beers had agreed on the basic approach to "forthcoming co-operation".

"We believe all earlier agreements concluded on co-operation will stay, and will proceed along agreed lines "

Analysts yesterday were bullish about the visit of the Russian delegation, saying the fact they were coming out to SA was a positive sign that the Russians intended to make a deal

They expected a new agreement to be concluded when the two parties met again in December

De Beers and Russians agree on talks

(216) ST (BR) 28/11/95

By Reuter and Fiona Leney

Johannesburg — Russian diamond negotiators sounded a conciliatory note yesterday after holding talks with De Beers officials on the thorny issue of renewing their sales accord

"We had talks with the leaders of De Beers and we reached agreement regarding our basic approach to co-operation," said Oleg Soskovets, the Russian deputy premier "We believe that all earlier agreements concluded on co-operation will stay," he said

A De Beers spokesman said that in discussions with the Russian delegation, which included the chairman of Komdragmet, the government agency which controls precious metals and diamond marketing, had concluded with an agreement to continue talks next month

Russia's membership of the Central Selling Organisation (CSO), De Beers' diamond-industry cartel through which Russia sells 95 percent of its rough gems, lapses at the end of next month

Cautious

Industry analysts said that while both sides were still sounding cautious, it appeared that they were moving together "For all the huffing and puffing, the Russians would be cutting their noses off to spite their faces if they walked out on De Beers," said one source, who declined to be named

The two sides have been sparring for most of the year over the terms for renewing the agreement The Russians accuse De Beers of damaging their interests by altering diamond prices without consultation, while De Beers has been irritated by what it alleges is Russian cheating on the agreement by selling small diamonds behind the CSO's back

The problem has been Russian over-production, with about $1 billion in stones flowing to cutting centres every year, flooding markets and hitting prices

Diamond mines 'will bring us jobs'

Sowetan 4/12/95 (216)

Plan to mine Madimbo area ignites bad vibes between two clans

By Russel Molefe

TSHIKUNDAMALEMA and Mutele, the last residential areas in the far northeast of the former Venda homeland bordering Zimbabwe, did not get a share of the downpour that blessed almost the whole country recently

Rain has not fallen there for almost two years now, and the major Mutale River which runs through those areas is so dry that shrubs have grown over it

But the ravaging drought and scorching heat – the temperature can reach 45 degrees in summer – no longer dominates discussion among the more than 10 000 people living there

Today the topic is the plan by Duo Corporate Developers, owned by Mr Khehla Mthembu and Mr Richard Bluett, to mine the unique Madimbo corridor nearby for diamonds

The plan has ignited hostility between the Tshikundamalema and Mutele clans because of their different views of the issue

The Tshikundamalema clan believes a diamond mine would bring jobs to many people in the area The clan rejects the idea of introducing ecotourism as an alternative

Attempts by environmentalists to convince them otherwise backfired when they were chased from the area by armed men Northern Province Premier Ngoako Ramathlodi also left in haste during his recent visit

Freedom of choice

Headman Mr Josias Mavundadavhi becomes very emotional when he discusses the issue He believes environmentalists opposed to mining the area were unfairly interfering with his people's freedom of choice

"We have been told the country is free and people are free to choose what is best for them as long as it is within the law This is our area and we have chosen what we want it to be mined," Mavundadavhi said

"The people who want to mine the area came here and were cheered after they explained their plan Ecotourism will not bring as many jobs as the people want

"This area is grossly underdeveloped We want bread, not ecotourism It is our choice and we will not compromise on that"

The people in Tshikundamalema went as far as removing the fence which surrounded the Madimbo corridor They argued that their stock was being denied grazing on the land of their own people

However, Chief Jack Mutele of the Mutele clan said he was not prepared to feed his stomach at the expense of damaging his land beyond rehabilitation by allowing mining

He said he does not dispute that there may be diamonds in the area but "we don't know how long they will support the people"

He said his people opted for ecotourism because it would be of lasting value

'National roads, hotels, resorts and other kinds of entertainment may be constructed and people from all over the world will flock here to get peace of mind Definitely, ecotourism will bring a cash-flow," Mutele said

Lodged a claim for land

"The land which the company wants to mine belongs to the Mutele clan, and the royal family has also lodged a land claim with the relevant authorities It was taken from us forcefully by whites a long time ago"

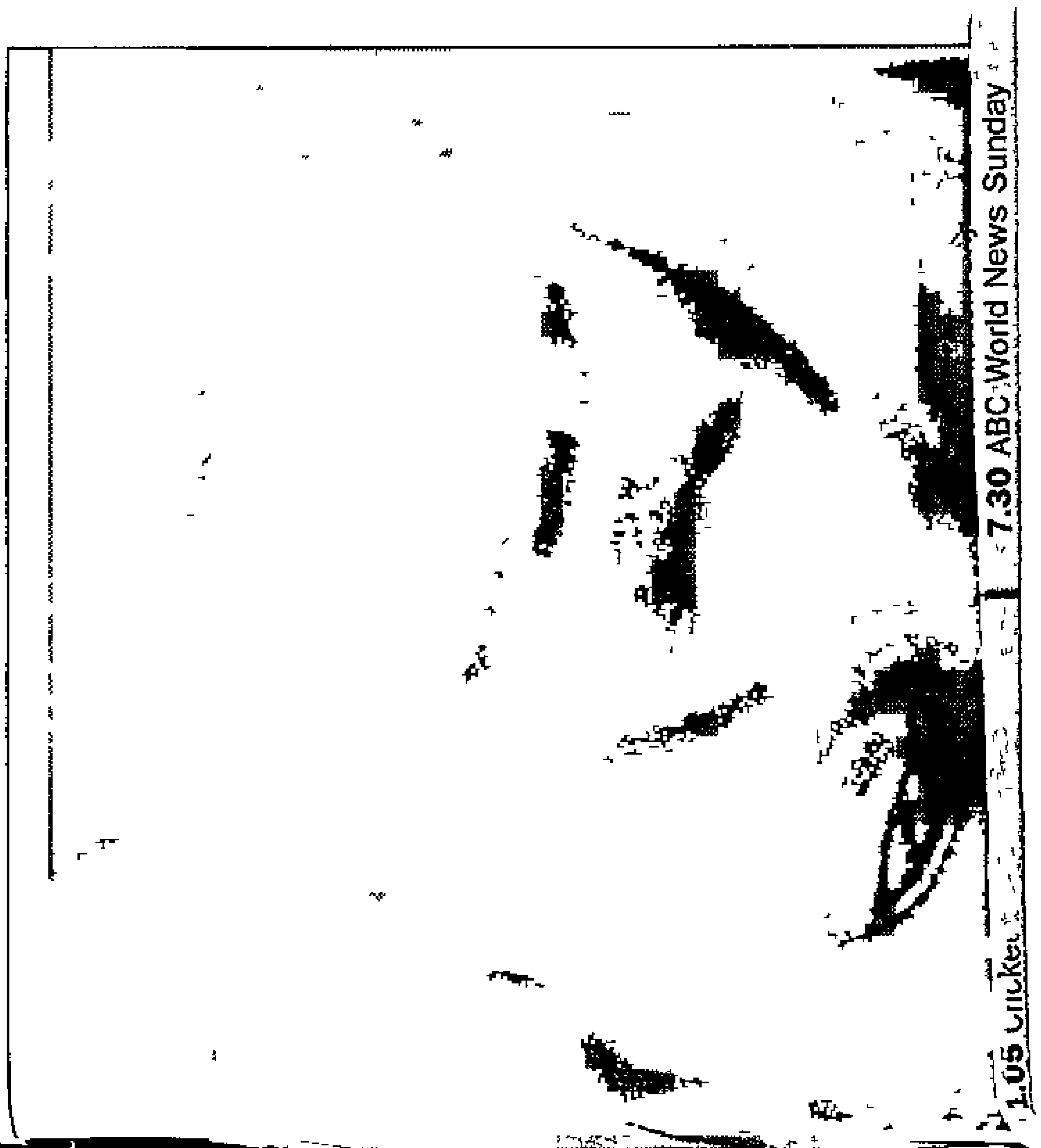
He said Duo Corporate Developers has not yet approached the people of Mutele on its plans to mine the area (contrary to an earlier statement by Mthembu that the affected communities were properly consulted and gave their approval)

According to history, the Madimbo corridor belongs to the Mutele clan but was "robbed" of it by white farmers and mining companies that mined graphite at Gumbu

The corridor was taken over by the then South African Defence Force in 1968 and used as a buffer zone to cut off infiltration by guerrillas during the apartheid era

The Northern Province government intends to declare the area a natural heritage site because of its richness in archeological treasures, which date back to the movements of the Venda-speaking people during the Iron and Stone Ages

Intensive research commissioned by the provincial department of environment and tourism show that the area's unique character lends itself



Chief Jack Mutele ... not prepared to feed his stomach at the expense of damaging his land by allowing mining.

'Thousands' of De Beers jobs lost

(216) ARG 6/12/95

Labour Reporter

THOUSANDS of jobs are being lost as De Beers scales down its Namaqualand diamond mining operations.

But the mining giant has agreed to soften the effects of the job losses.

Downscaling and closure of large-scale diamond mining in Namaqualand over the next 10 years will lead to the retrenchment of up to 5 000 people.

This would mean loss of livelihood for about 50 000 people, said Anwar Carawan, special adviser to Northern Cape premier Manne Dipico.

He said the government lacked the capacity to plan and develop regionally without help from private enterprise, particularly in a minerals dependent province.

A major challenge to the industry would be to implement mine closures so that all those involved could take partin the process and emerge with some positive solutions, he said.

De Beers would offer investment advice to employees who had accumulated substantial pension benefits but who were too old to find alternative employment or to be easily retrained, he said.

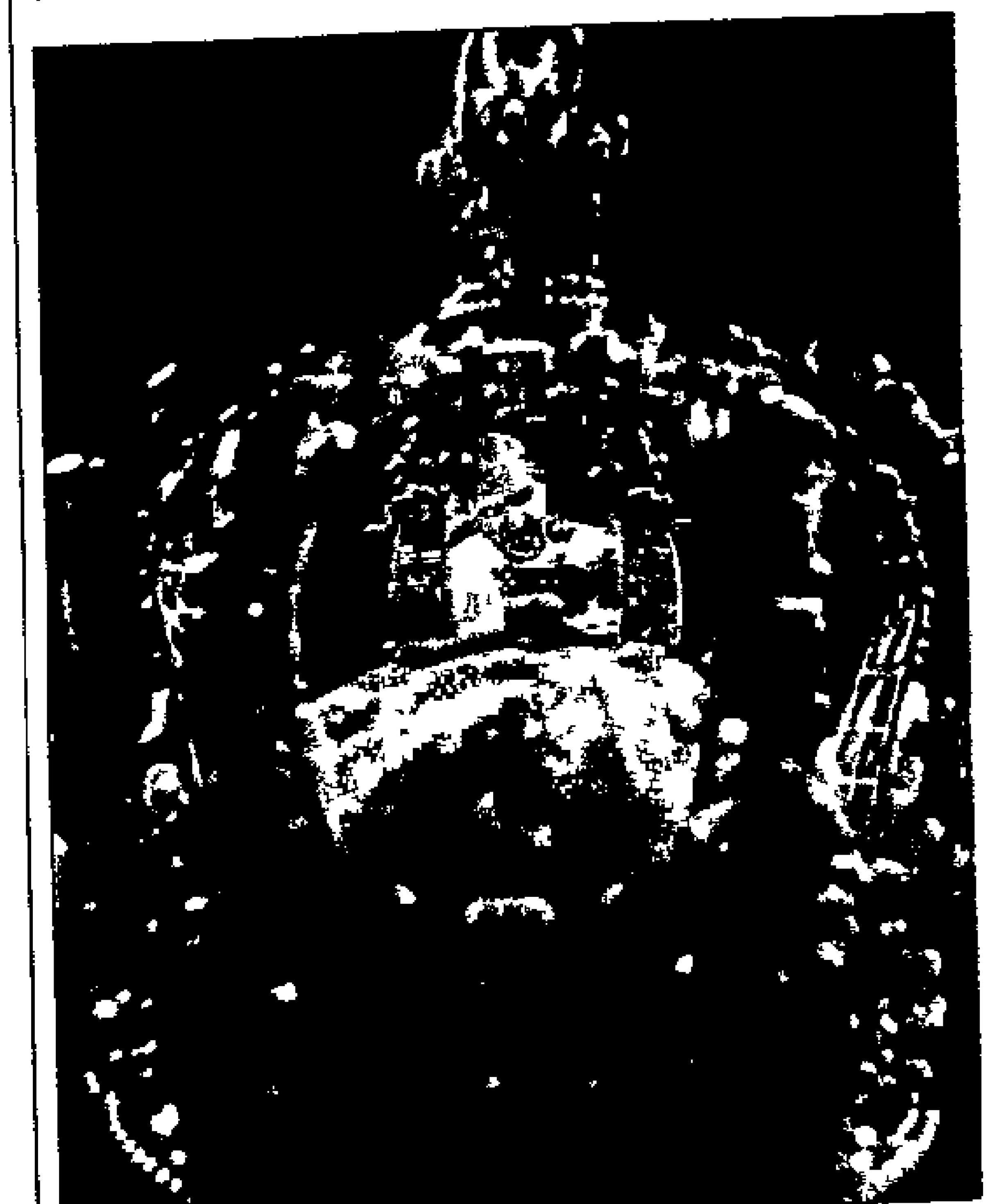
Background & Analysis

Russian threat flaws De Beers' record diamond sales

(216) CT (BR) 12/12/95

The company's grip on the diamond market is slipping a little, but an all-out price war is unlikely

By Kirstie Hamilton



LOSING GRIP *A craftsman works on a replica crown while De Beers' CSO tries to rein in diamond producers*

The Duchess of York did De Beers a favour last week. Reports of the theft of her diamond jewellery, since recovered from a New York baggage handler, served to remind the world that the rich and privileged wear diamonds — the bigger the better. As free advertising goes, De Beers could hardly have dreamt of better publicity.

This De Beers' Central Selling Organisation (CSO), the aptly-named marketing business that controls most of the world's diamond sales, will announce record sales for this year of about $4,5 billion, up from last year's $4,2 billion. Prices for large diamonds rose by 5 percent in November, signalling that De Beers believed the market would continue to be buoyant.

But beneath the sparkling exterior, the diamond market is in turmoil. Russia, one of the world's largest suppliers, is threatening to abandon the cartel that has controlled diamond prices and supplies for most of this century. De Beers' five-year agreement to take 95 percent of Russia's diamond exports comes to an end on New Year's Eve with no new agreement in sight.

Michael Spriggs, an SBC Warburg diamond analyst, said "Everything is approaching a climax right now."

Thus week Gary Ralfe, the CSO's managing director, will visit Russia to try to thrash out a deal. But analysts say there is no hope of an agreement similar to the last five-year contract. Instead, they believe the Russians will insist on selling a big proportion of their diamonds elsewhere.

The result is unlikely to prove the catastrophe for De Beers many have predicted. The company, a sister of South Africa's Anglo American combine, still produces 50 percent of the world's diamonds and is likely to retain a tight hold over prices and stocks.

In reality De Beers is renegotiating a contract that fell apart two years ago.

Despite being contracted to sell 95 percent of its exported diamonds to De Beers, the Russians are thought to have sold as many diamonds to other foreign buyers as to the CSO. Within the industry these unofficial sales are referred to as "leakages".

More recently, the leak has become a flood. This year, unofficial sales were thought to total $800 million, almost matching the $1 billion of diamonds sold to the CSO.

"The industry has been badly demoralised by the leakage," said Spriggs.

The difficulty for De Beers in trying to rein in its recalcitrant supplier is the huge change taking place within the former Soviet bloc. Aside from Almazy Rossii Sakha (ARS), the Siberian company that operates the single big-diamond mine in northeast Siberia, De Beers also has to contend with Komdragmet, the Moscow based holder of Russia's diamond stockpile.

ARS has a continuing interest in keeping diamond prices high to ensure profits, but Komdragmet has other priorities.

Founded by Peter the Great as the storekeeper of national treasures, Komdragmet traditionally has been subject to the whim of czars or presidents, who have used it to fund special projects.

The size and scope of the Russian stockpile remains a source of speculation, and will play an important role in influencing the future of the market.

De Beers and diamond analysts used to assume the stockpile was made up mostly of very large and very small diamonds. But last year the Russians stumped outsiders by selling large quantities of the middle-sized diamonds.

The panic subsided a little this year, when Russian unofficial sales once again began to feature either large or tiny gems (known in the trade as "frozen spit"). Analysts began to think the stockpile was not as huge as they feared.

Anxious not to become the victim of Russian leakages, De Beers has made some pre-emptive strikes over the past year. It has raised the prices of larger and medium-sized stones but reduced prices for the smaller stones the Russians have in such abundance.

A generation earlier, these stones would have been used only for industrial purposes — often in the defence industry — but these days low-cost Indian polishers have used even "frozen spit" for jewellery.

De Beers recently sought to reassure Indian dealers it was not creating a two-tier market, keeping the prices of larger gems high while allowing smaller stones to fall in value. But the Indians are yet to be convinced.

Although De Beers might not actively seek a two-tier market, a fall in the price of smaller stones would help it maintain the tightest possible grip on the whole market.

Argyle, the Australian diamond producer, has joined the Russians in threatening not to renew a contract to sell to the CSO. Its contract comes up for renewal in the middle of next year and much of its production is smaller stones. Analysts believe De Beers' demonstration that it is prepared to let prices for smaller diamonds fall is intended to encourage Argyle back into the fold.

With an estimated 80 percent of the world's diamond stocks in its possession, the last thing that De Beers wants to do is start a price war. Analysts believe the company will reach a co-operation agreement with the Russians, though it may stop short of a formal contract.

Diamond Intelligence Briefs, an industry newsletter, says "The CSO will remain a major customer of the Russians, possibly a preferred customer, but it will have to compete with other major international diamond purchasers."

For De Beers, this arrangement will fall short of the expiring comprehensive contract.

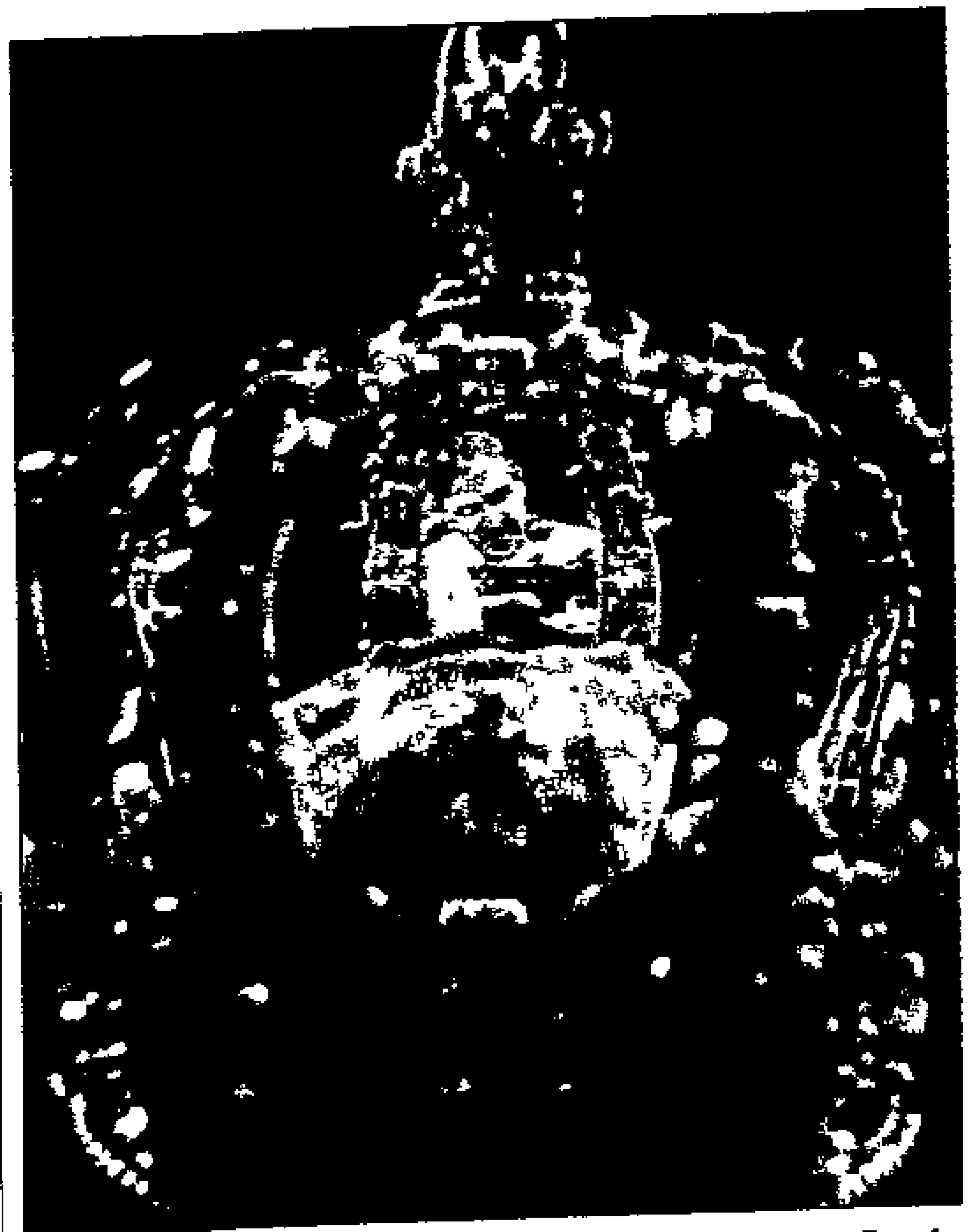
The Russians may stick to a new marketing agreement rather than copy the flagrant breaches of the old contract. De Beers would then have first pick of the Russian diamonds, rather than taking stones left behind by unofficial buyers.

In Australia, Argyle's head, John Robinson, is watching De Beers' Russian talks closely — London Sunday Times

BACKGROUND&ANALYSIS

Russian threat flaws De Beers' record diamond sales

(216) CT(BR) 12/12/95



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In Australia, Argyle's head, John Robinson, is watching De Beers' Russian talks closely — London Sunday Times

De Beers diamond sales reach a record $4,53bn

(216) CT(BR) 14/12/95

By Neil Behrmann

London — De Beers' diamond sales reached a new record of $4,53 billion (R16,6 billion) this year, up 6 percent on last year's $4,25 billion

The previous rough-diamond sales peak for De Beers, which controls about 75 percent of the market, was $4,37 billion, achieved in 1993

Sales were strong because the market in quality and medium grade gems was doing well, said De Beers officials

The market absorbed a 5 percent price increase for expensive diamonds weighing 2 carats or more in November (a carat weights one fifth of a gram) The diamond market has been buoyant in the US and Asia, while it is recovering in Japan, De Beers officials said. Europe was described as "quiet"

In 1994 Asia, inclusive of Japan, accounted for 45 percent of worldwide diamond jewellery sales of $45 billion De Beers is projecting more growth in 1996 and has mounted a marketing campaign in China. In terms of value, the US is the biggest diamond jewellery market, with a share of 29 percent

East Asia follows with a 23 percent share, then Japan (22 percent) and Europe (13 percent). In effect there is a two-tier market, since prices of low-quality diamonds were slashed in July Total 1995 turnover met expectations of dealers and analysts, who were forecasting sales of around $4,5 billion

Second-half sales of $1,99 billion were lower than the first-half level of $2,54 billion, but were higher than the $1,67 billion of diamonds that were sold in the second six months of 1994

Meanwhile, a delegation of top De Beers executives headed by Gary Ralfe, chief executive of the corporation's Central Selling Organisation, will be in Moscow next week Their negotiations are yet another effort to forge a new sales agreement with Russia before the present accord expires at the end of the year

Diamond dealers believe, and De Beers officials are beginning to concede, that Russia and De Beers will agree to a memorandum of understanding where Russia continues to sell a smaller proportion of its diamonds to De Beers

In terms of the present contract, Russia should sell 95 percent of its diamonds to De Beers

Yet in the past two years it has reneged on the agreement and has sold nearly $2 billion worth of diamonds independently, De Beers officials estimate

FM 15/12/95

DE BEERS & RUSSIA (21b)

Discord continues

Tempting though it is to believe that a deal between De Beers and Russia is imminent, a dose of caution might not be misplaced

As De Beers' share price heads north with gathering strength, it might be worth considering that too much now hinges on intangibles The signals from London and Moscow are confused and sometimes contradictory, the market appears confidently to expect a deal between De Beers and Russia But if it doesn't materialise, the hatches will be firmly battened down

Last week, a committee of the Russian parliament's Upper House explicitly rejected a Bill which would allow the Sakha diamond mining company Alamzy Rossii-Sakha (ARS) to negotiate diamond sales with De Beers directly

The rejection re-establishes the authority of the State committee in charge of precious metals and diamond-selling — Komdragmet, headed by Yevgeny Bychkov

This is being interpreted as a major political setback for De Beers, which hoped to negotiate a deal with ARS, so avoiding Bychkov and the Ministers who back him

Meanwhile, the next round of discussions — scheduled for earlier this week — were suddenly cancelled as the *FM* went to press A De Beers spokesman says this was at the request of the Russians, a Moscow source says differently

What the postponement may mean is that Bychkov's position has strengthened sufficiently to enable him to delay indefinitely Strategically, therefore, De Beers may now have to rethink its position Should it explain the delay as a rollover (a situation in which the existing agreement is allowed to continue while further negotiations take place early next year) or should it be presented as a contract expiry with no new market understanding until talks are completed?

A third alternative, much more threatening, is that the contract has ended and that's that — no more talks, each party is on its own

The CSO and the Russians have been at loggerheads for a year now over the terms of the agreement which terminates in a few weeks The Russians wanted to sell more at higher prices, the CSO wouldn't (and couldn't) budge That led to wholesale avoidance of the agreement by the Russians, who sold large quantities of good quality rough into world markets CSO officials responded angrily

While some of the heat has since dissipated, the underlying disagreement hasn't Still, both sides know they need each other The Russians want to perpetuate the present agreement for a while, De Beers probably doesn't — after all, why entrench an arrangement which permits abuse? It will be looking for something more watertight, but that means it must give ground somewhere

The *FM* was printed ahead of the release of the CSO's annual sales figures for financial 1995 However, Johannesburg analysts are expecting second-half sales of between US$2,1bn and $1,9bn, giving a total of $4,4bn-$4,65bn The average of those polled is around $4,5bn, which, if correct, will be a CSO record

That good news is overshadowed, though, by the continuing impasse in Moscow *John Helmer in Moscow and David Gleason*

Setback for Russian deal with De Beers

Mungo Soggot (216) BD 20/12/95

THE chances of De Beers securing a marketing agreement with Russia this year diminished yesterday when the Russian parliament rejected new laws governing diamond and gold sales

Reuter reports Russia's upper parliamentary house, the Federation Council, threw out legislation designed to widen the regions' powers to sell gold and diamonds on the open market.

De Beers, which is scheduled to reopen talks with Russia today, refused to comment Sources said the move could throw the already complicated talks into greater turmoil and would probably force another round of talks.

The move could also strengthen the hand of centralised state diamond body Komdragmet, which has led the opposition to Russia's agreement to sell 95% of its diamonds through De Beers' Central Selling Organisation (CSO)

De Beers closed 200c down on the JSE yesterday at R110,50.

Russia's marketing contract with the CSO expires on December 31. The country's reluctance to renew the agreement quickly and its decision to sell gems outside the CSO contract to secure hard currency has overhung market sentiment for 18 months

Russia's lower house last month passed the legislation, which would unpick laws dating back to the Soviet era under which the state monopolises all sales of precious metals and stones

However, the upper house ordered a committee representing both houses to rework the proposals. It was not clear when the committee would meet

Hopes of a deal were boosted recently when Komdragmet chief Yevgeny Bychkov said the body wanted to renew the contract and could extend the agreement if a new deal could not be clinched He did not detail terms

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Alexcor's retrenchment plans blocked

(216) BD 22/12/95

Mungo Soggot

ATTEMPTS by management at state-owned diamond company Alexcor to axe 500 of its 1 500-strong workforce in a quiet privatisation drive have been blocked by the National Union of Mineworkers and government

The company was unavailable for comment yesterday, but NUM assistant secretary-general Gwede Mantashe said the retrenchment plans — due to go through this month — had been put on hold Mantashe said he did not expect any announcement until later next year.

The job cuts were central to Alexcor's plans for partial privatisation, which also include spinning off non-core operations such as its ostrich farming business.

Union sources said Public Enterprises Minister Stella Sigcau had recently reminded Alexcor management about the moratorium on restructuring in place since August A department spokesman could not confirm this

Sources said the Cosatu uproar after government unveiled its privatisation plans last week had also put a damper on Alexcor's plans.

It is understood labour will demand that government guarantee jobs in any privatisation framework agreement

De Beers' diamond deal with Russia deadlocked

(216) BD 28/12/95

NEGOTIATIONS between De Beers and the Russian government on a new diamond-selling contract appear deadlocked over the percentage of gem production the Russians want to officially sell outside of De Beers' Central Selling Organisation (CSO).

The Russian government is seeking to sell 40% of its diamond output on the open market, while De Beers negotiators — led by deputy chairman Nicky Oppenheimer — are offering a 25% window, a locally-based De Beers official said.

Three days of talks in Moscow apparently broke down over the issue last week, said the official, who is familiar with the discussions but not part of the negotiating team. A further three days of negotiations are set to begin on January 15.

De Beers executives in Johannesburg and London involved in negotiations were unavailable for comment.

Russia produces an estimated $1,5bn worth of rough diamonds each year, or 23% of the world market of about $6,5bn.

Under the current agreement with De Beers, the Russian government must sell 95% of its rough diamond production to the CSO, allowing 5% to be floated on the open market. It is widely believed Russia significantly flouts these percentages, with perhaps as much as 25% directed at buyers in competition to the CSO.

Both De Beers and the Russians recognise that the current agreement — which expires on December 31 but has been extended until February 1 — is flawed and being violated.

If the Russian government is truly seeking 40%, the bid threatens to provoke the world's other main diamond producers to demand a greater say in production and sales, of their precious gems, analysts say.

The implications of ceding the Russians an avenue to sell 40% of their gems outside the CSO are unclear. Analysts discount a destabilisation in the diamond price, which is in the interests of neither De Beers or the Russians.

De Beers has said that, in the event of no agreement, it would continue to purchase the bulk of Russia's production on a "willing buyer, willing seller basis". But that entails risks, say analysts, placing De Beers' cash flow under pressure to meet spot purchases in a bid to continue to control the release of rough diamonds and their price.

Meanwhile, Reuter reports stock analysts said De Beers should clinch a fresh diamond marketing deal with Russia, but negotiations could drag on beyond the February 1 deadline.

James Allen of stockbroker Anderson Wilson said the extension was positive, demonstrating that neither side wanted to walk away from a deal, but an extra month might still be insufficient. —AP-DJ.

Russia to launch diamond exchange

(216) BD 28/12/95

MOSCOW — Russia would launch an exchange next month to market uncut and polished diamonds, Russian diamond producers' association chief Ararat Evoyan said yesterday.

The association might consider SA mining company De Beers as a co-founder of the exchange, Evoyan said

Russia's finance ministry and state committee on precious metals were expected to be among the founders

Almazy Rossii-Sakha — Russia's largest diamond mining and export company — and the Almazyuvelirexport foreign trade association would sponsor the exchange, he said

In London, Andrew Lamont, spokesman for De Beers' subsidiary Central Selling Organisation, said his company was optimistic it would "soon come up with an agreement on the long-term future of the relationship between the Russian diamond industry and De Beers" De Beers' contract with Russian producers expires on Sunday, but has been extended by one month to allow talks to continue. — Sapa-AFP.

See Page 5

Regional Resources in the red

(216) BD 29/12/95

Madden Cole

DIAMOND company Regional Resources and its sister company Zenith Concessions moved deeper into the red in the six months to August, both reporting increased accumulated losses

The companies' JSE listings were under threat of suspension earlier this month after they failed to submit interim reports within the stipulated three-month period

Zenith Concessions, listed on the JSE's development capital market this year, posted an accumulated loss of R940 204 Loss a share was 9c

There are no corresponding figures for the previous six months, as the company was incorporated in November last year. The accumulated loss for the year to February came in at R101 790, and loss a share at 2c

The net loss at R838 414 was sharply up on the R101 790 recorded for the 12-month period, with an accumulated loss brought forward reported at R101 790

Directors said R102 000 extraordinary legal fees, which were recoverable in part, were paid during the period.

The company was negotiating for further projects and renegotiating current projects, and directors warned shareholders of price fluctuations

Zenith recently had an application for its liquidation dismissed with costs in the Cape Town Supreme Court

Regional Resources, with Deputy President FW de Klerk's son Willem on its board, reported an accumulated loss of R1,4m against a R1,2m accumulated loss for the 12 months to February. A net loss of R184 644 on turnover of R21 930, against a net loss of R586 861 for the comparable period last year, was recorded.

Directors said Australian company Moonstone Diamond Corporation had pumped R343 553 into Regional Resources and had continued to fund the development of the Kouewater Project

Negotiations relating to the company were continuing and shareholders were warned of price fluctuations.

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TOTAL	c/forward							

De Beers grows in Europe

(216) CT(BR) 3/1/96

By Charlotte Mathews

Johannesburg — De Beers Industrial Diamond division has bought the German superabrasive grit production businesses of the German-based Winter group of companies and all the group's joint venture rights in superabrasive production around the world

Superabrasives are synthetic diamonds. At present De Beers makes synthetic diamond products in factories in Gauteng, Ireland and Sweden

Winter Group said yesterday the sale of its superabrasive grit production facilities was part of the sale of most of the group of companies by its owners, Ernst and Georg Winter The group's other major activity, superabrasive tool-making, was being sold to French industrial group Saint-Gobain.

The cost of the deal was not disclosed

The chairman of the De Beers Industrial Diamond division, James Campbell, said it was a private deal between two individual owners of a listed company and two large groups The businesses being bought had been split up and there was no individual transaction.

As far as De Beers was concerned, the purchase price was "not an overwhelming sum of money"

Reuters reports from Brussels that the acquisition will be financed by Megapode, a company jointly owned by De Beers and Belgian diamond tools group Sibeka

Diamond talks will resume

CT(BR) 4/1/96

By Fiona Leney

(216)

Johannesburg — Talks between De Beers and the Russian government on renewing their five-year marketing agreement which officially lapsed at the end of last month, will resume on January 15, a De Beers spokesman said yesterday

De Beers secured a one-month extension of the agreement — in terms of which Russia sells 95 percent of its diamonds through De Beers' Central Selling Organisation (CSO) — just days before the deal was due to expire

Nicky Oppenheimer, the chairman of the CSO, said that despite the difficulties in reaching an accord with the Russians, he remained optimistic for diamond prices

"The Russians stress that their interests, like ours, can only be served by a stable market and, even if no formal contract is signed, I believe we shall continue to buy substantial quantities of Russian diamonds on the open market," he said in a year-end message

Gloom was cast over the market just before Christmas when the Russian parliament rejected new laws governing diamond and gold sales Observers believe a substantial part of the problem lies in the internal political battles being fought in Russia

Those should have been resolved by the December parliamentary elections — but the triumph of the Communist Party has thrown doubt over the whole economic reform process.

Russia's challenge to De Beers remains unaltered

(216) CT (BR) 11/1/96

ANDREI IVANOV AND JUDITH PERERA

Moscow — Russia has still not reached agreement with De Beers on renewing the 1990 contract that gives De Beers's Central Selling Organisation (CSO) exclusive rights to market 95 percent of Russia's diamonds

The contract, due to have expired at the end of last year, was extended for one month while talks continued Meanwhile, Russia's diamond industry continues to develop despite considerable internal problems, raising the possibility of it eventually breaking De Beers' effective monopoly.

"Later this month a diamond exchange for Russia's uncut and polished diamonds is to be launched," said Ararat Evoyan, head of the Russian Association of Diamond Producers Russian producers complain that De Beers's prices are too low and that they are excluded from the more profitable stone polishing work

Russia extracts nearly 25 percent of the world's uncut diamonds, but its share of global diamond polishing and jewellery manufacture is only 6,7 percent and 0,4 percent respectively.

In a bid to attain better terms of co-operation with De Beers, the Russian delegation used the preliminary talks in South Africa last year to demand that its share of diamonds sold through the CSO should be reduced to 75 percent from 95 percent Russia also wants to be consulted about the prices for raw diamonds and finished products.

A draft agreement was the subject of December's intense discussions but nothing was resolved. De Beers apparently reduced the quota to 65 percent of all diamonds mined in Russia, but that this was to include those of more than 10,8 carats These large gems were not included in the previous agreement While reducing the quota, the draft agreement introduced new penalties for violating the time schedule and stipulates volumes of deliveries.

In addition, De Beers insisted on its previous right to purchase all types of the remaining raw diamonds which cannot be faceted in Russia

In effect, this clause increased to 80 percent the quota of Russian diamonds to be sold through De Beers

De Beers also insisted that all Russia's diamond exports had to go through the organisation New clauses in the draft agreement oblige the state-owned Almazy Rossii-Sakha company to guarantee that all De Beers' demands are endorsed in resolutions of the government of Russia, with the simultaneous repeal of all acts contrary to these resolutions

However, Almazy Rossii-Sakha, which mines 99 percent of Russia's entire diamond output, is a private company and Russia is unlikely to accept these terms

De Beers said it sold uncut diamonds for a record high of $4,53 billion last year — $281 million more than in 1994

The $700 million worth of diamonds Russia exported through other channels last year, which circumvented the agreement with De Beers, had no obvious effect on the market

But Russia's diamond industry faces internal problems. There is growing tension between Almazy Rossii-Sakha and Roskom-dragmet, the state committee for precious metals and stones

Vyacheslav Shtyrev, the head of Almazy Rossii-Sakha, is opposed to the stance adopted by the Roskom-dragmet, which wants the trade in diamonds to be strictly controlled by the government. This view is shared by most independent producers and cutters.

"Roskom-dragmet is trying to create a local market for hard currency valuables under its own tight control," said an official at the state-run Kristall cutting firm

A federal programme is being drawn up by Roskom-dragmet, the finance ministry and the ministry of the economy, aimed at developing the domestic cutting industry Every year, De Beers buys diamonds worth about $1,1 billion from Russia Experts at Roskom-dragmet calculated that when the diamonds reach buyers in the form of jewellery, they are worth about $11 billion.

The aim is to ensure that Russia benefits from this added value The programme provides for the establishment of Russia's own sales department, to be named the Federal Diamond Centre, which will sell Russian diamonds at global prices There are plans to free diamond exports and the resale inside the country, of diamonds purchased from the state The intention is to establish a highly organised market. Russia would then receive about three times more than the present $1,1 billion.— Sapa-IPS

De Beers-Russian talks averting diamond war

CT (BR) 17/1/96 (216)

FROM SAPA-DPA

MOSCOW — Russia and De Beers resumed talks in Moscow yesterday on a new diamond marketing deal Sources said a compromise would be difficult, but no diamond war was in the offing

During the previous round of negotiations in the Russian capital, the two parties agreed to extend their five-year agreement until February 1

The Itar-Tass news agency said differences with De Beers were due to Russia's "enhanced role in the world diamond community"

It cited sources close to the talks as saying a common interest in market stability would prevail The talks began in April 1994,

A diamond industry official told the Interfax news agency that De Beers' talks at the state committee for precious metals and stones with a Russian delegation led by the finance minister, Vladimir Panskov, could last another two days

Earlier this year, De Beers announced a 7 percent drop in earnings in 1994 because of the recent Russian practice of selling its rough diamonds directly to the market Russia produces a quarter of the world's diamonds

In November last year, a senior Russian diamond industry official was quoted as saying Moscow planned to set up a central, state-run organisation to oversee its diamond sector's competition and trade with De Beers The organisation would also help Russia develop its cutting industry

According to a state committee spokesman cited by the news agency PostFaktum, the Russians were objecting to some of De Beers' proposals.

These included the payment of fines for violations of the agreement, late deliveries and De Beers' insistence that it receive options on all large diamonds.

Diamond pact 'is' imminent'

(216) CT(BR) 18/1/96

FROM REUTER

Moscow — The rise in price of De Beers shares is a signal that Russia and the South African diamond group could reach an agreement soon, a senior official at Russia's Diamond Producers' Association said yesterday

"It is a very good sign that De Beers shares are rising," said the official. "Traders in Johannesburg probably received some sort of an indirect hint that the talks had been successful."

Shares in De Beers Consolidated Mines hit a new high yesterday. The share had risen R1,25 to R123,00 in mid-afternoon trade, mirroring the overall market's continued strength. The ruling price at close of trade yesterday remained at R123,00.

The association's official said he was also optimistic about the future of relationships between Russia and De Beers.

"We (Russia and De Beers) are tied by one chain. We have nowhere to go separately We can only hope that the talks will be successful," he said

Russia and De Beers entered their second day of talks in Moscow yesterday, but it was unclear how long it would take to hammer out a new agreement on the sale of Russian gems through De Beers' London-based Central Selling Organisation (CSO)

Under the present five-year deal, which was extended to this year when it expired on December 31, Russia sells 95 percent of its rough gems through the CSO.

Russia is believed to want to sell more of its diamonds — some say 25 percent — outside the CSO and to develop a local polishing industry.

Analysts have said Russia and De Beers could work out an agreement, which would provide for at least a measure of co-operation aimed at ensuring the stability of the market

De Beers share price up R18 on back of Russian deal

CT 22/1/96 (BR) (216)

By Charlotte Mathews

Johannesburg — A buoyant market, improved gold price and a more favourable sentiment towards the outcome of negotiations with Russia has moved De Beers' share price up about R18, or 17 percent, since the beginning of December

The shares closed at R122 on Friday, a 25c gain on the day and an R11,50 improvement on their opening price of R110,50 at the beginning of January

The last six weeks have also seen a re-rating of the company to a price-earnings ratio of 14 from 12 late last year This is still weaker than the overall market's rating of about 18

Analysts said last week that De Beers had been looking undervalued for some time The share price has been depressed by uncertainty over the outcome of talks with Russia, a major diamond producer, and De Beers' marketing arm, the Central Selling Organisation. Their marketing agreement expired in December, and for several months previously it was obvious that the two had difficulty in coming to terms

On Friday the two announced the diamond marketing deal had been extended until March 1.

According to one analyst, some observers were starting to believe that an agreement with the Russians was not crucial to De Beers' prosperity The Russians have been leaking diamonds outside the deal since 1993, and last year the quality of those diamonds was relatively poor.

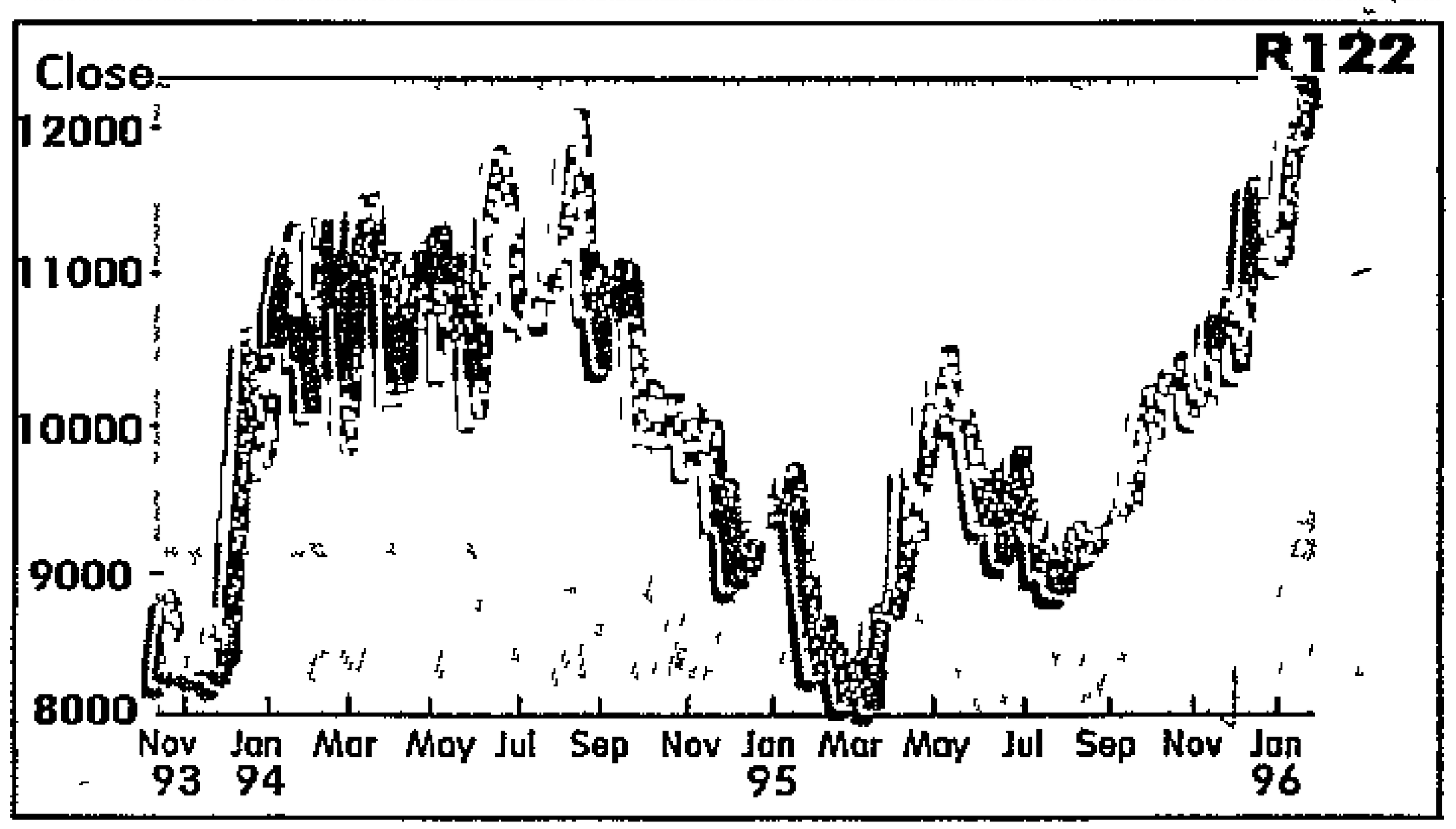
Russia's failure to invest in its diamond mining industry has also inhibited new mine ventures

Another analyst said De Beers was now showing the benefits of the 5 percent price rise in high quality gems imposed in November

De Beers also has a large exposure to the gold industry through its holding of 40 million Anglo American shares With the recent increase in the gold price to nearly $400 an ounce, Anglo shares have surged and De Beers shares have risen with them

— De Beers is the bellwether stock of the JSE When the market surges, De Beers is in the forefront Analysts said the market was reflecting general optimism about international economic growth this year and the possibility of interest rate cuts

De Beers Consolidated



De Beers plans to free mineral holdings

(216)

Patrick Wadula

BD 8/2/96

DE BEERS is planning to free a string of mineral properties across the country in another step by the industry to meet government plans to foster the small-scale mining sector.

The diamond group said yesterday it was discussing mineral rights with the mineral and energy affairs department and was evaluating the viability of some mines An announcement would be made at the end of the month

A De Beers spokesman said there had been some interest from small miners in Northern Province properties. Other sources suggested De Beers could free prospects on the west coast

This follows a move by JCI, which put 15 properties containing mineral deposits on the market last month.

Mining houses have been called on to release undeveloped mineral rights.

Last year De Beers agreed to sell mineral-bearing areas in Namaqualand to smaller operators.

The Namaqualand Small Miners' Association said it took small miners at least a year to secure mining permits from mineral and energy affairs

De Beers on verge of deal with India

(216)

ET (BR) 13/2/96

By Ross Herbert

Johannesburg — De Beers is awaiting final approval for a diamond prospecting pact with India's Reliance Industries.

It has a joint participation agreement to prospect for diamonds in the Indian state of Madhya Pradesh, but the deal is contingent on an exemption to existing Indian law, the company said yesterday.

Shares of Reliance, India's largest private firm, surged last week, including a 10 percent leap on Friday. The reasons for the rise were unclear. However, in Bombay, Reuter reported heavy buying of indexed stocks, including Reliance, by foreign funds.

De Beers recently won an international tender by the Madhya Pradesh government. The deal will only come into effect when prospecting rights are finally awarded.

De Beers said it was awaiting final approval from the central Indian government on the terms under which the company would invest in India.

It would not provide details of the agreement with Reliance or the proposed terms of investment, but said the terms would require a government decision to extend the area of De Beers' prospecting rights.

Meanwhile, Neil Behrmann reports from London that De Beers insisted it still controlled about 75 percent of the world's rough diamond market, although the Russians had flooded the market over the past two years.

A surge in Russian supplies reportedly reduced the proportion of De Beers purchases from global producers to well below 70 percent of the total.

But a large proportion of global supplies came from Russian stockpiles which were being depleted.

De Beers insisted again yesterday it had bought up excess gems to maintain control of 70 to 80 percent of the market. De Beers also operates a quota system where producer members of the Central Selling Organisation, its diamond cartel, have agreed to cut the supply of their diamonds by 15 percent.

Mines in South Africa and other African nations as well as Australia have agreed to either lower output or stockpile the excess stones.

Luc Rombouts, the head of Terraconsult, an Antwerp-based diamond consultancy, says that the extra supplies and stockpiles from Russia's mines boosted global diamond supplies last year to 130 million carats worth \$7,2 billion.

Based on those calculations, De Beers' proportion was 63 percent.

Is the cartel losing control of the global diamond market? According to dealers, much will depend on a new agreement with the Russians. In terms of the old pact, De Beers could buy 95 percent of Russia's exports. If Russia sold more of its production independently, De Beers' share of the global market would drop.

"The diamond market is entering a new phase where De Beers will change from a cartel to the market's most important buyer," a London diamond dealer said.

8

'De Beers not as powerful as claimed'

(216) ARG 14/2/96

LONDON – South African diamond giant De Beers's international cartel holds a much smaller share of the world market in rough diamonds than it claims, a report in the latest issue of Diamond International concludes

De Beers's London-based cartel last year controlled 63 percent of world diamond supply, and not the 70 to 80 percent it claims, according to a study by Diamond International and an independent Antwerp consultancy, Terraconsult

Worldwide sales of rough diamonds in 1995 reached 130 million carats, worth $7,2 billion In 1994, De Beers's Central Selling Organisation's (CSO) share was even lower, at 56 percent of a market worth $7,6 billion, the publication said

The report says that De Beers has been losing market share as increasing quantities of Russian diamonds flood the international market in defiance of the present contract between Moscow and the South African diamond giant This stipulates that Russia must hand over for sale 95 percent of the country's diamonds to the CSO

Increased mining by individual diamond prospectors in Africa and South America is also to blame, according to Terraconsult

But De Beers insisted yesterday that their calculations were still accurate

"I don't think this figure (of Diamond International) takes into account the outside buying activity", conducted by the CSO to mop up diamonds entering the market outside its control, a spokesman said

Diamond supply statistics are now coming under greater scrutiny by market analysts because of growing uncertainty about the future of the cartel, which sells diamonds from the mines of De Beers and from the other main world producers, such as Australia, Russia and Namibia

De Beers is currently locked in negotiations with the Russian government over a new contract The Russians believe the South African company is paying them too much below the market value of their gems

Two sessions of talks took place in December and January between Nicky Oppenheimer, De Beers's vice-president, and the Russian finance minister and deputy finance minister

Discussions should resume soon, the CSO spokesman said She was "optmistic" about the outcome – Sapa-AFP

Messina suffers a dip in income

(216) BD 16/2/96

David McKay

INDEPENDENT mining house Messina Investments (Minvest) reported yesterday a sharp drop in net income to R2,2m (R4,4m) after restructuring affected production levels in the six months to December.

Turnover decreased significantly to R12,7m (R17,6m) Group operating income halved to R1,8m (R3,9m).

Earnings at 15,1c a share, excluding exceptional items, dropped sharply from 32,7c in the previous interim period. Earnings including exceptional items came in at 16,8c (33c). However, earnings for the second half were expected to equal or exceed those for the review period.

Operating income at Messina Diamonds was in line with management forecasts Planned improvements in recovery grade and the quality of diamonds produced were progressing satisfactorily, the company said

It said restructuring at Star Diamonds had reduced production and monthly operating loss

Production underground had been interrupted from December last year to January this year after heavy rains had flooded parts of the mine, the company said

However, dewatering had been completed and production had restarted, it said

Progress had been made in opening up and exploring the lower levels of the central portion of the mine.

The company said an agreement to sell a majority share in the Botswana Bushman Copper Project to an offshore partner, in exchange for financing for the project, would be signed this month.

Exploration drilling to prove the feasibility of the project was expected to begin in April this year

Russia, De Beers clinch gem deal

(216)

ST(BT) 25/2/96

DE BEERS and the Russian government have finally agreed on the marketing of Russian diamonds after lengthy and sometimes acrimonious negotiations, writes MARCIA KLEIN

On Thursday it appeared that the parties would not reach agreement, observers said

News of the deal saw De Beers' share price gain 240c or 2,7% on Friday to close at R127,50, just off its R128 high

Details of the new deal have not been provided, although it has been speculated that Russia will be allowed to sell 25% of its rough diamonds independently of De Beers' Central Selling Organisation

A previous agreement, where Russia was obliged to sell 95% through the CSO, expired on December 31, but was extended twice while talks continued

Negotiations on a new deal have been difficult and prolonged — they started in 1994.

The two parties issued a joint statement on Friday saying they had signed a memorandum "of the general principles which will govern the future relationship between the Russian diamond industry and De Beers".

This would be expanded into a formal three-year trade contract

Almazy Rossii-Sakha, the sole agency authorised to export rough diamonds from Russia, will negotiate the trade agreement on behalf of the Russian diamond industry.

The statement says the memorandum recognises the requirements of the Russian cutting industry and also "provides for De Beers' position as the sole and exclusive buyer of all rough diamond exports"

It says the two recognise their responsibility as major producers for the stability of the world gem diamond market

The memorandum was signed by V G Panskov, Russia's minister of finance, and Nicky Oppenheimer, deputy chairman of De Beers.

De Beers in new Russian gems deal

(21b) BD 26/2/96

David McKay

DE BEERS Centenary has won from the Russian diamond industry exclusive rights for its Central Selling Organisation (CSO) to market its products, including 80% of the "non run of mine" diamonds, previously the source of unofficial "leaks" into international markets. A memorandum to this effect was signed on Friday

CSO negotiator Gary Raife said yesterday De Beers had been anxious to obtain "exclusivity", which will ensure that, other than stones marketed independently by the Russians, all will be channelled through the CSO.

In terms of the memorandum, which paves the way for a formal three-year trade contract with joint stock company Almazy Rossii-Sakha as the sole agency authorised to export rough diamonds from Russia, the Russians will be entitled to market 5% of current production. Further, De Beers is guaranteed "run of mine" — mined goods from which no superior stones are extracted for independent sale — in the case of half the quota acquired from the Russian industry.

The Russians' gain in the deal is the right to 20% of the "non run of mine" stones — smaller and cheaper goods, including those taken from stockpiles, which were the source of leaks in recent years

The deal is estimated to be worth $100m a month to Russia

The stones held back by the Russians were generally used to supply the country's diamond cutting industry. "The Russian diamond cutting industry is a reality which will not disappear," Raife said

Formal talks towards transforming the memorandum into a final agreement would involve the possibility of a price testing mechanism, Raife said. This would moderate the supply of stones in times of excess supply.

A five-year exclusive contract between Russia and De Beers' London-based CSO, which is responsible for the buld of world trade in rough diamonds, was due to end in December, but was extended while negotiations on a new contract continued.

Raife said the deal would maintain and optimise diamond prices on the world market The market had grown nervous of a possible rift between De Beers and Russia

De Beers accord paves the way for higher global gem prices

ET (BR) 26/2/96 (21b)

By Neil Behrmann

London — The vague preliminary diamond agreement between Russia and De Beers, announced on Friday, would pave the way for an increase in global gem prices, dealers said at the weekend.

Russia would stop dumping diamonds on to the market and sentiment should improve, they said.

After bitter negotiations that lasted more than a year, the two parties said that their memorandum of general principles would enable De Beers, the South African-controlled diamond cartel, to be "the sole and exclusive buyer of all (Russia's) rough diamond exports".

The accord, which will become a formal three-year contract as soon as possible, replaces a five-year agreement that expired last December. Under that deal, Russia was obliged to sell 95 percent of its rough diamonds through De Beers' London-based Central Selling Organisation.

Following news of the announcement, De Beers shares jumped almost 3 percent to R128.

While De Beers and analysts enthused about the breakthrough, dealers close to the Russians were sceptical.

They referred to a clause in the memorandum stating that a new contract would "take full account of the requirements of the important Russian diamond industry".

"This memorandum still provides Russia with a window to sell a much larger proportion of its diamonds independently," said Erez Rivlin, the head of Antwerp-based Rivlin Diamonds and a consultant to the Russian parliament.

A De Beers spokesman said: "The memorandum was signed by Russian Finance Minister Vladimir Panskov and thus carries extra weight."

Almazy Rossi-Sakha, Russia's biggest diamond producer, would be the sole export agency, so there should be better control on rough diamond exports, he said.

Luc Rombouts, the managing director of Antwerp diamond consultants Terraconsult, said: "The deal will allow De Beers to raise prices since less rough diamonds should leak on to the market."

In terms of the deal, Russia, a member of the cartel, had succeeded in raising its share of total producer sales to De Beers by a few percentage points to 26 percent, or $1,2 billion, he said.

The De Beers cartel aims at controlling prices by buying about 75 percent of the $6 billion global rough uncut diamonds from mines and on the market. It then sells the stones to select dealers.

Agreement favours Russia — analysts

(2.16) BD 27/12/96

David McKay

THE new deal reached between the Russian Federation and De Beers for conditions governing the sale of diamonds favoured the Russians, analysts said yesterday

One analyst believed the memorandum for a formal three-year agreement, signed on Friday, recognised the Russian diamond cutting industry for the first time by giving them the right to 20% of the "non-run of mine" stones These diamonds were used to supply the country's diamond cutting industry

Non-run of mine diamonds were smaller and cheaper and included stones taken from stockpiles which had been the source of leaks in recent years. The agreement by the Russians not to leak diamonds directly to international markets was accepted at face value by De Beers

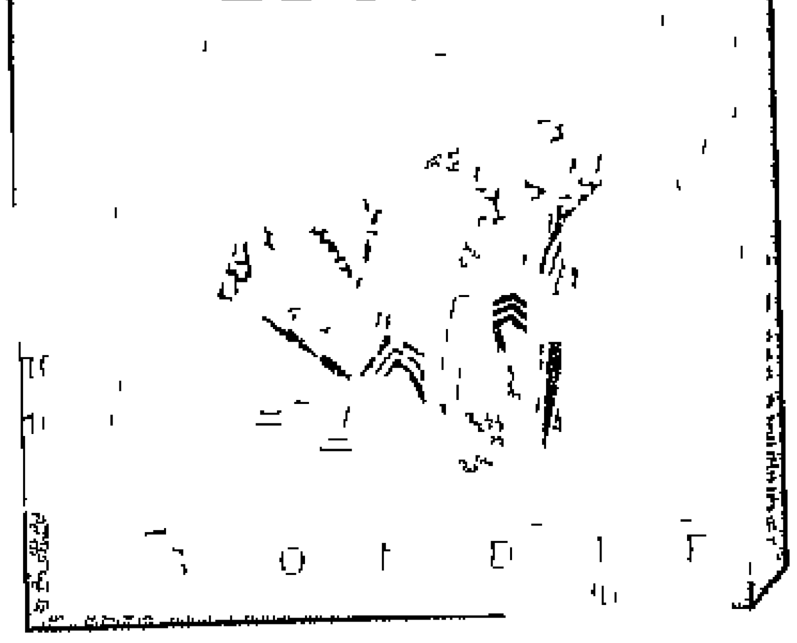
De Beers said its trust in the Russians was justified because the memorandum was signed by Russian Finance Minister Vladimir Panskov and not by lower order officials, lending more validity to it

However, one analyst said there was no assurance that the Russians would not continue to "cheat" the system by leaking diamonds to obtain better prices.

CSO negotiator Gary Ralfe said at the weekend that there had been a definite reduction in the amount of diamonds sourced from Russia sold directly to the international markets

This indicated the Russians had had a change of heart and fully

De Beers



believed in the agreement with De Beers

An analyst suggested the appointment of joint stock company Almazy Rossii-Sakhe as the sole agency to export diamonds from Russia signalled the Russians would be controlled by business and not the political interests of Komdragnet However, Komdragnet officials would attend negotiations for the formal three-year agreement, Ralfe said

He said the upcoming contract negotiation between De Beers and Botswana would not be coloured by the agreement with the Russian Federation

De Beers' share price rose to a new high of R133,30 on the JSE yesterday as news of the memorandum spread, retreating to R130,00 at the close. The counter had jumped R3,50 or 2,6% to R127,90 on Friday while investors awaited confirmation of the memorandum

De Beers deal averts diamond price war

BD 27/2/96

(216)

LONDON — The immediate threat to the most durable cartel in recent history has passed. This time last week, De Beers was ready to see its London-based Central Selling Organisation ripped apart by the departure of Russia, one its most important members.

De Beers was willing to take the chance that a price war might break out, rather than have its cartel sign a worthless contract with Russia.

But, to the relief of the diamond industry, Nicky Oppenheimer, deputy chairman of De Beers, on Friday signed a "memorandum of general principles" which will govern the future relationship between the Russian diamond industry and De Beers. As soon as possible, these principles will be expanded into a formal three-year trade contract with Almazy Rossii-Sakha — Russia's biggest diamond producer — and leave De Beers as "the sole and exclusive buyer of all rough diamond exports".

"The contract with the Russians has given De Beers a great deal of aggravation for at least two years," said one industry observer. "The Russians have gone to the edge of the abyss, looked over the edge and did not like what they saw. The prospect of losing $100m a month from the CSO concentrated the Russians' minds."

As a bonus for De Beers, even as the final, tense negotiations were going on, Yevgeny Bychkov, the most powerful man in the Russian diamond industry and for years a thorn in the CSO's flesh, was sacked from the chairmanship of Komdragmet, or the committee for precious metals and stones, by President Boris Yeltsin.

Bychkov previously had been charged with illegal foreign currency deals and was linked with the activities of Golden ADA, a company set up in San Francisco in October 1992 by a Russian and two Armenian brothers.

It imported large quantities of rough diamonds from Russia with the apparent blessing of Moscow. But Komdragmet has filed a suit in a San Francisco district court alleging Golden ADA did not pay for $150m of gems.

The Golden ADA fiasco must have helped De Beers, because it undermined those in Russia who argued that the links with the cartel should be cut and Russia should take responsibility for its own sales.

Russian producers relied on the diamond cartel from the time it was set up during the Great Depression. Even when SA and the Soviet Union were at opposite ends of the political spectrum, Russian diamonds made their way to the CSO via a web of intermediaries.

The CSO acts as a kind of buffer stock manager for producers in Angola, Australia, Botswana, Namibia, Tanzania and Zaire, as well as Russia and SA, and so controls well over half of world trade in rough diamonds. It stockpiles rough diamonds in hard times and releases them when demand is healthy.

De Beers is holding more than $4,35bn worth of diamonds in CSO stocks.

Five years ago, the Soviet Union rejoined the cartel and gave the CSO exclusive rights to the diamonds it was exporting. De Beers says that contract has been worthless for two years.

When negotiations reached a hiatus in December and the Russians wanted the contract to be extended for another year, De Beers refused.

Since then the old contract was extended a month at a time. De Beers had decided that if a new one could not be agreed by March 1, it would bring down the curtain on the talks.

De Beers said the Russians were flagrantly breaching the contract by exporting huge quantities of rough diamonds without using the CSO. Analysts suggest well over $1bn worth "leaked" to the west in this way in the past 18 months.

It remains to be seen whether Friday's deal stops the leakage. But the memorandum promises the leakage will stop and was signed by Vladimir Panskov, Russia's Finance Minister, rather than by a Komdragmet official.

Meanwhile, Australian producers, angered by the way De Beers made selective price increases last year, are threatening to quit the cartel when their contract expires this year.

Further ahead, mining groups BHP of Australia and RTZ-CRA, the Anglo-Australian group, are to become diamond producers, and whether they join the CSO remains open to question. — Financial Times.

De Beers shares at an all-time high of R133

CT(BR) 27/2/96(216)

By JOHN SODERLUND

Johannesburg — The outlook for De Beers Consolidated Mines is more positive, which sent its shares to an all-time high of R133 on Monday after news of a diamond marketing deal with Russia, according to analysts.

Many said the share could now rise as high as R150

The long-awaited Russian agreement should strengthen De Beers' grip on the market They said the deal could enable the diamond giant to change producers' quota arrangements and announce a diamond price increase sooner than had been expected

De Beers said on Friday that it had signed a memorandum of understanding with Russia that would make it the exclusive buyer of all rough diamonds exported from Russia

Formal contract

The general principles contained in the memorandum would be expanded into a formal three-year contract as soon as possible in negotiations with Almazy Rosii Sakha, which would become the sole agency authorised to export rough diamonds from Russia.

The previous marketing agreement, which was extended beyond its expiry on December 31, allowed De Beers' Central Selling Organisation (CSO) to market 95 percent of Russia's output of rough diamonds

But considerable quantities of rough diamonds — much of which came from Russian stockpiles — were sold outside the CSO, weakening De Beers' stranglehold on the market

Barry Sergeant, a diamond analyst at BOE Natwest Securities, estimated De Beers did not see more than 40 percent of Russia's rough diamond production, despite the old deal.

"Now De Beers will see much more of Russian rough diamonds than ever before," he said.

Despite the lack of detailed information on the new deal, analysts said it boded well for a sustained advance in the share price to around R150.

"The details of this tacit agreement are not that important because of the violations the Russians have perpetrated under the previous agreement . That they can keep each other mutually happy is more critical to the stability of the diamond market," said Sergeant.

Another analyst, who declined to be identified, said: "It puts the confidence back in the market. This was the single biggest negative factor weighing on De Beers."

He said it could pave the way for the lifting of quotas. The attendant boost in sentiment could allow the CSO to bring forward an announcement of an official price increase.

De Beers operates a quota system under which producer members of the CSO agreed to cut diamond production by 15 percent.

Mines in South Africa, Botswana and other African countries, which have agreed to lower production or stockpile the unwanted 15 percent, could have the quota scrapped sooner than anticipated, said the analyst.

De Beers shares were trading at a discount of about 27 percent to net asset value before the announcement on Friday. Another analyst said that the discount should be substantially eroded in coming weeks.

But the rerating could be short-lived, depending on further talks with the Russians, other analysts cautioned.

"It depends more on what the Russians do than what they say," said one.

"It is a sentiment play. We would be using any announcements about quota arrangements or price increases as opportunities to sell over R130," said another. — Reuter.

WAS IT A GEM?

SIGNED AND SEALED *De Beers' Nicky Oppenheimer and Glavalmazzoloto's Valery Roudakov sign a CSO agreement in 1990, which failed to stem leaks in the diamond market Time will be the test for the latest agreement*

De Beers and Russians claim victory

ET (BR) 28/2/96 (216)

By Neil Behrmann

In the chaos that pervades Russia, De Beers has achieved an impressive sales deal, in the first step to a long awaited formal contract for the cartel to buy uncut gems.

Yet according to Russian spokesmen and informed dealers, the agreement has done little to clear up the uncertainty which has plagued the global diamond industry While De Beers is claiming a victorious settlement, the Russians are doing the same

De Beers signed a memorandum of understanding last week which would make it the exclusive buyer of all rough diamonds exported from Russia

The general principles would be expanded into a formal contract in negotiations with Almazy Rossii-Sakha, which would become the sole authorised exporter of Russia' rough diamonds.

In doing so De Beers has succeeded in stopping the Russians from dumping excess rough diamonds on the market, yet the Russians also benefit since the accord allows their growing diamond cutting industry to receive a larger proportion of diamonds from production and the stockpile

The net effect is that De Beers' share of the global rough diamond market will decline, but prices of cheap stones will stabilise and better quality gems will increase

"It is a win-win situation for both sides," said a De Beers official who be'ie es the accord will stick, even in the likely event that Boris Yeltsin loses power

Dealers, however, caution that Russia remains "a wild card"

The agreement affirms "De Beers' position as the sole exclusive buyer of all rough diamond exports" from Russia, said the joint statement released by the two parties.

De Beers disclosed this week that exports would account for 26 percent of its annual sales, which are currently $4,5 billion. So De Beers' share of Russian rough diamonds in terms of its present turnover is about $1,2 billion. Those purchases will fluctuate with De Beers sales and Russian production.

"The agreement will enable us to sell a significantly higher percentage of our diamonds independently," said Sergei Oulin, vice president of Almazy Rossii-Sakha.

According to Gary Ralfe, chairman of De Beers' London-based Central Selling Organisation, total Russian rough and polished diamond exports are currently at $1,8 billion to $2 billion a year.

Since production is worth about $1,2 billion, the remaining $600 million to $800 million has been sold directly to Russian diamond manufacturers and joint ventures based in Moscow, Antwerp and elsewhere.

In terms of the accord, medium and top-quality stones will be sold to the cutting factories in Moscow. Yet the Russians will also be able to export about $150 million of cheaper stones. Thus De Beers' share of Russian rough diamond exports will shrink to about 88 percent from the 95 percent in the old agreement.

Luc Rombouts, the managing director of Antwerp diamond consultants Terraconsult, contends that De Beers will now be in a position to raise prices of the better quality [illegible] Indeed the market is already firm

Now that the Russians are allowed to sell more diamonds outside the cartel, Botswana, Australia and other producers may demand similar concessions Botswana's agreement is due for renewal and David Magang, Botswana's minister of mines, is currently in London.

Markets jolted by Russian sale warning

216

Paul Richardson and David McKay

BD 29/2/96

PRECIOUS metals markets shuddered yesterday amid warnings by Russia that it planned to dip into its resources — which include gold, platinum, palladium and diamonds — to help plug a huge budget shortfall.

Gold eased to $397 in London immediately after the statement, but recovered to close at R397,75.

Palladium was hardest hit as Russia is the largest producer, and bids as low as $134,20 were recorded compared with an earlier high of $139,50.

Platinum was largely unaffected, dipping 50c to $408 in London trade.

Markets have grown accustomed to alarming rumours from Russia, but the country is still regarded as being able to determine the fortunes of many commodities crucial to SA's economy.

De Beers shares fell 350c or 2,8% on the JSE before the announcement. The counter touched a record of R133 on Monday following news last Friday that the company had signed a new marketing agreement with the Russians, but has fallen R10 since.

Russian First Deputy Prime Minister Vladimir Kadnnikov was quoted as saying that out of 32-trillion roubles needed for the budget in March, the government expected to receive just 22-trillion roubles. One realistic way of boosting revenue was the sale of precious metals and diamonds, he said.

A De Beers spokesman said he doubted Russian sales of diamonds and precious metals to cover a shortfall in revenue would reflect adversely on the umbrella memorandum the company had signed with the Russian Federation on diamond sales from Russia.

"News like this sourced from Russia comes to us all the time. The diamonds reportedly being sold would probably be heading for De Beers in any event."

Mines stoic on Russian threat

David McKay (216) BD 1/3/96

SA's mining industry was unfazed yesterday by reports that Russia could flood international markets with precious metals in a bid to cover a shortfall in its revenue.

Anglo American Platinum Corporation MD Barry Davison said he did not believe Russian sales of platinum would increase significantly if the country tried to cover its shortfall through the sale of precious metals

"Russian sales behaviour is dictated by the price of platinum, so if the platinum price dipped sharply the Russian Federation would reduce volumes, and if the price rose it would increase volumes "

Russian First Deputy Prime Minister Vladimir Kadannikov triggered a sharp fall in the palladium price on Wednesday after he announced that Russia was 10-trillion roubles short on its 32-trillion rouble budget

Palladium gained $1,50 to $138/oz in London yesterday, after bids as low as $134,20 the day before. Russia accounts for 65% of world production for palladium, used mainly in automotive anti-pollution catalysts The platinum price was up $4,50 to $412,50/oz.

Anglo American gold marketing director Kelvin Williams said he did not think Russia had enough gold reserves to significantly affect the market

"Even if the Russians had been accumulating gold stockpiles recently and released as much as 400 tons, it would not be seriously material to the market," he said.

DE BEERS AND RUSSIA

OPPORTUNITY TO CELEBRATE

FM 1/3/96 (216)

But now the deal must work in practice

The market is rejoicing and has driven De Beers' share price to record highs But, having given ground on issues it previously thought vital, there is still no guarantee that De Beers can make its new agreement with Russia stick much better than the last one — which ended shot through with holes

To hear each side deliver its version of events in Moscow last week, Russia and De Beers have either agreed on radical changes in the international diamond trade or it will be business as usual

The trouble is that when Central Selling Organisation (CSO) chairman Nicky Oppenheimer, accompanied by MD Gary Ralfe, left Moscow they had signed only one piece of paper, and a nonbinding one at that The statement of intent has to be fleshed out and formally given consent — a process which could take months

However, at the heart of the agreement is a concession by De Beers which has yielded on the quantity of Russian rough it is entitled to take each year On the other side, the Russians have bought into the concept of an orderly rough market — undoubtedly because they got their fingers severely singed last year

But the deal between the two diamond superpowers is also about something else it is that Russia has decided to make a serious effort at penetrating the polished goods market, either from its own factories or from those it establishes abroad in joint ventures Having decided to go that route, there is a recognition that it cannot successfully build an internationally competitive cutting industry if the underlying rough market is in chaos

Both sides can claim to have taken something important away from the table De Beers is now guaranteed about half of Russia's new mine rough production each year (called "run of mine"), this runs at between US$1,2bn -$1,3bn in total For their part, the Russians have probably agreed to stand on their 26% share of CSO sales Since these are worth about $4,4bn annually, Russia can deliver $1,1bn worth of rough to the CSO

In terms of the agreement, about $600m is expected to come from new mine production The balance of $500m can be supplied from Russia's stockpiles — and, if it does, the arrangement is that the Russians can then sell up to another $100m directly into world markets

To give effect to this, the description of the goods which fall into different categories will be tightened — it was because of loose definitions that the Russians claimed the right to sell what they described as "polished" and the CSO said was rough Evidence suggests the amount was as much as $800m last year

The big plus for De Beers is that it has effectively earned what amounts to a lien on the Russian selling policy as it relates to rough material and there is some speculation the accord could lead to rising sales prices

The disadvantage is that it has given ground on the total value of sales the Russians must make to it and has also given a window of 20% on stockpile sales Another plus is that, in the past, the Russians were able to dictate the quality composition of sales to the CSO, turning this into run of mine production effectively neutralises that element

Nicky Oppenheimer signed only one piece of paper

By and large, this is a settlement which De Beers is undoubtedly pleased to have negotiated Whether it can be made to stick is another matter the Russian salesman (Komdragmet, its central sales agency) proved adept at avoiding the spirit of the last agreement

De Beers has constructed a short-term solution to a longer-term problem The focus will shift inexorably to the polished end of the business, an area in which De Beers will be able to exercise comparatively little influence But, since this is some years away, the market is taking the opportunity to celebrate *John Helmer in Moscow & David Gleason*

N

RUSSIAN GEM EXPORTS

Projected breakdown

Amount (US$m)	Source	Explanation
1 300	ARS*/Komdragmet	26% quota of CSO sales of which $650m comes from ARS and $650m from stocks
30	ARS	5% window/price test
140	ARS/Komdragmet	To be sold independently, smalls allowed
80	Komdragmet	To be cut by Lazare Kaplan/Komdragmet
450	Factories	For polishing and export fully polished
2 000		

* Almazy Rossi-Sakha, the Siberian mining company

Source *FM* in Moscow

Russia stepped back from edge of abyss in deal with De Beers

(216) ST (BT) 3/3/96

By KENNETH GOODING

DE BEERS will pay Russia almost $150-million a month in terms of the agreement reached between the two parties this month.

Russia's $2-billion a year from sales of rough or uncut diamonds to De Beers' Central Selling Organisation is a welcome boon to a country starved of foreign exchange

Gary Ralfe, chairman of the CSO, says Russia's diamond production is worth about $1,3-billion a year, and it will have to dig deep into its stockpile to meet the sales target

Russia will also be able to export on its own account 12,5% of its total annual export sales, rather than the 5% permitted under the previous contract with the CSO

Last year Russia exported 43,5-million carats of rough diamonds worth $3-billion, according to figures released in Moscow this week Russia imported a total of $296-million worth of diamonds last year

Discussing the negotiations, Mr Ralfe said members of the Russian government "at a very high level" had joined the negotiations last August in order to safeguard income from the CSO contract

De Beers went to the brink of a price war to get the agreement on Russian exports so that it could ensure a long-term deal with one of the world's major producers

The "memorandum of general principles", which will govern future relations between Russia's diamond industry and De Beers, will soon be expanded into a formal three-year trade contract with Almazy Rossii-Sakha, Russia's biggest diamond producer, leaving De Beers as the "sole and exclusive buyer of all rough diamond exports".

"The contract with the Russians has given De Beers a great deal of aggravation for at least two years," said one industry observer "But the Russians have gone to the edge of the abyss, looked over and did not like what they saw The prospect of immediately losing the $100-million of income a month from the CSO concentrated Russian minds"

Even as the final, tense negotiations were going on, Yevgeny Bychkov, the most powerful man in the Russian diamond industry and for years a thorn in the CSO's flesh, was sacked from the chairmanship of Komdragmet, or the Committee for Precious Metals and Stones, by President Boris Yeltsin himself

The CSO acts as a kind of buffer stock manager for producers in Angola, Australia, Botswana, Namibia, Tanzania and Zaire, as well as Russia and South Africa, and so controls well over half of world trade in rough diamonds It stockpiles rough diamonds in hard times and releases them when demand is healthy De Beers is at present holding more than $4,35-billion worth of diamonds in CSO stocks

Five years ago, the Soviet Union formally rejoined the cartel and gave the CSO exclusive rights to the diamonds it was exporting

News that Russia is staying in the cartel will be well received in diamond cutting centres, particularly as it comes when sales seem reasonably buoyant

Last year the CSO's sales reached a record $4,531-billion, more than 3% above the previous peak in 1993 There are still some uncertainties for the cartel, however Terms of the new three-year contract have yet to be thrashed out and some observers will not relax until these are known

Meanwhile, Australian producers, angered by the way De Beers made selective price increases last year, are threatening to quit the cartel when their present contract expires in the middle of 1996

Further ahead, two of the world's biggest mining companies, BHP of Australia and RTZ-CRA, the Anglo-Australian group, are to become diamond producers

Whether they will join the cartel remains open to question — *Financial Times*

WORLD DIAMOND SUPPLY, 1993

Country	Production (cts m) (all types)	Production (cts m) (Gem)	Sales value ($-bn)
Russia - newly mined	10,5	2,1	0,64
South Africa	10,3	3,7	1,00
Australia	42,1	1,7	0,36
Zaire	15,6	0,8	0,31
Central African Republic	0,5	0,3	0,07
Other	11,5	2,9	0,90

Graphic FIONA KRISCH

Source YORKTON SECURITIES

Investments, sales expected to lift De Beers' earnings

BD 5/3/96

(216)

David McKaye

DIAMOND producer De Beers was expected to lift earnings a share almost 20% for the year to December as maiden income from the group's joint Namibian operation Namdeb kicked in, analysts said yesterday

De Beers' year-end results are to be released today

Analysts said equity-accounted earnings a share should be in the range of 920c to 940c (769c), allowing for a dividend of about 325c, up 8% on the last financial year

Namdeb was a joint venture company signed between De Beers and the Namibian government in November 1994 after CDM had been restructured to give the Namibian government a 50% stake Its results had not been consolidated in the income statement in ~~the~~ last financial year

De Beers' income from associate and investment interests would account for about half of earnings Other factors likely to fuel De Beers' earnings were higher diamond sales totalling $2,5bn in the first half of the year and $1,99bn in the second half.

Russian stockpiles of rough diamonds had been running low of quality stones resulting a decreasing effect on non-CSO trading

The diamond account margin, which was De Beers' income from diamond sales calculated as a percentage of CSO sales, would increase 2% to 16,6% This would generate more profit accompanied by decreasing debts in accordance with the better cash flow An expected reduction in spending would further aid cash flow

The diamond jewellery market had been running on a high since 1994 and this would continue to have a positive impact on results

Sales in the Far East for diamond jewellery had increased significantly while sales in the US market was being sustained by moderate economic expansion

There had been a slowdown in the amount of leaked diamonds on to the international markets which had not resulted solely from year-end stock adjustments, an analyst said

De Beers' share price touched an all-time high of R133 early last week after news that the group had signed an umbrella memorandum outlining principles for a new three-year agreement with Russian producers had filtered through the market

De Beers closed at R123,25, up 125c from Friday's close

The Argı

Profits maintain De Beers sparkle

(216) ARG 6/3/96

Business Editor

DE BEERS shareholders will cash in on the diamond producer's profit increase with dividends for the 1995 year up from 121c to 185c

The group's offshore arm, De Beers Centenary, has declared a dividend of 42,2 US cents compared to 50,3 cents in 1994

Together, De Beers Consolidated and Centenary reported an 11 percent increase in attributable profits to $624 million in the year ended December. in rand terms, the increase is 14 percent to R2,25 billion, on the basis of an average exchange rate of R3,62 to the dollar in 1995 compared with R3,53 in 1994

Directors said sales of rough diamonds by the Central Selling Organisation (CSO) were up seven percent last year, with the second half-year showing a 19 percent increase on the corresponding period in 1994

Worldwide retail sales of diamond jewellery rose five percent last year

Price changes last year, the absence of rough diamonds from outside the group, a better retail market and recent agreements between the CSO and the Russian government had contributed to a confident start to 1996, they said

■ **AECI** is considering a global placement of shares in Afex Holdings to cut debt and improve investment capacity

Reporting a 38 percent increase in attributable profits to R395 million in the year ended December, the group said its present structure constrained expansion AECI had decided to cash in its investment in Afex which contributed to earnings but not to cash flow.

The Afex stake was bought from ICI in exchange for 51 percent of AECI's explosive business.

■ **Cadbury Schweppes** reported a 22 percent increase in attributable profits to R101 million in the year ended December, on the back of 20 percent turnover growth

A final dividend of 88c makes 112c for the year — up 20 percent on 1994

■ **NSA Investments** said net asset value per share had risen a further 16 percent since the December year-end, to 1 020c at the end of February

Since December the group has bought a 60 percent stake in Pepe Confectiners for R24,5 million, and a 25 percent stake in Pinnacle Holdings for R33,4 million

Market capitalisation of shares and traded options at the end of February was nearly R700 million, NSA said

Attributable profits rose 56 percent to R14 million in the year ended December

Higher prices lift De Beers' profit 11% (216)

ET(BR) 6/3/96

BY ROSS HERBERT

Johannesburg — De Beers Consolidated Mines and De Beers Centenary yesterday reported an 11 percent increase in dollar-attributable income and a 21 percent rise in earnings from the companies' combined diamond account for the year ended in December

Results were boosted by a significant strengthening in medium and large gemstone prices last year, according to the chairman Julian Ogilvie-Thompson He predicted that the recently completed agreement with Russia would maintain current strong prices for larger stones and stabilise prices in the market for smaller gems coming out of the huge Indian cutting industry

De Beers must still negotiate a trade agreement with Russia, but its outline will be controlled by the recent memorandum of understanding The new deal will prevent the diversion of industrial or "technical" diamonds into the Indian market and will stop diamonds sent on consignment to cutting centres from reaching the open market

The deal will allow Russia to sell 20 percent of its smaller, low-grade stones on the open market, an amount far smaller than what reached India last year. Ogilvie-Thompson said negotiations began last week with the Argyle mine in Australia, which is India's other major supplier of stones

Gary Ralfe, the managing director, said that the rough market is stronger than it has been in a long time Combined earnings of the two companies were $624 million

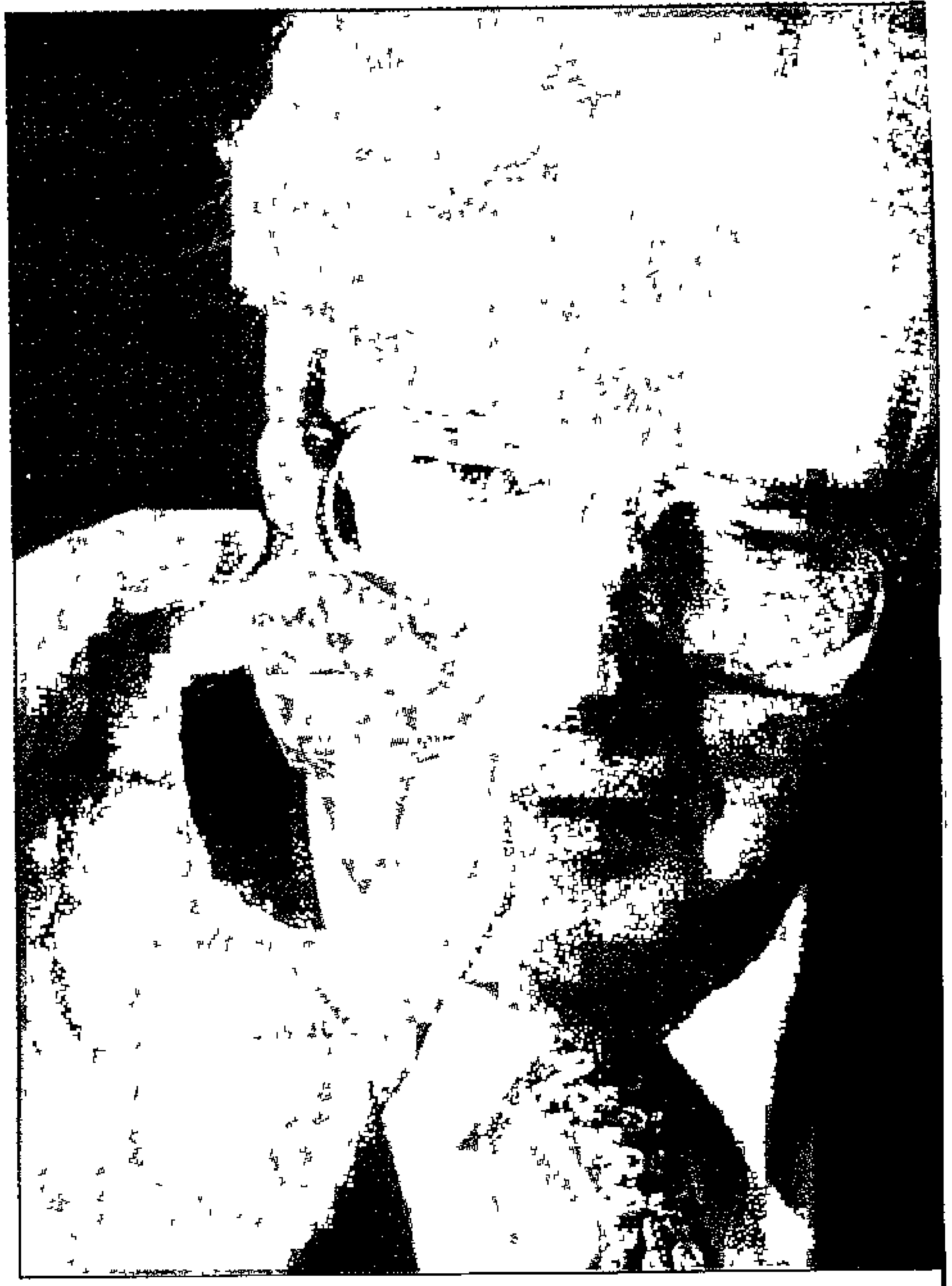
Several analysts expressed surprise that earnings from the De Beers Centenary (De Beers non-South African interests) diamond account fell from $484 million in 1994 to $445 million for last year Centenary's turnover was $5,07 billion, up from $4,10 billion in 1994 Its earnings after tax were $305 million, down from $356 million

Earnings from the diamond account at De Beers Consolidated Mines grew to R1,20 billion ($309 million) from R576 million ($148 million) last year Attributable earnings after tax rose at Consolidated from R789 million ($203 million) in 1994 to R1,22 billion ($312 million) last year The gains in diamond earnings at De Beers Consolidated were offset by significantly higher taxes, due to the Venetia mine becoming fully taxed this year Taxes jumped from R124 million in 1994 to R366 million

The United States market led the world in demand for diamonds, with an 8 percent increase in carat demand and a 7 percent increase in the value of diamonds in jewellery Europe experienced less growth, with carat demand up 7 percent in the UK, 9 percent in Germany and 11 percent in France But Ralfe expressed concern over economic difficulties in Germany and France

Japan showed a weak first half but a 7 percent increase in diamond buying in the second half Overall, east Asia sales were up only 2 percent, but were badly hurt by a 24 percent decline in Taiwan sales, which the company attributed to fears over mainland Chinese military threats

De Beers Consolidated declared a final dividend of R1,32 compared with R0,83 in 1994 De Beers Centenary declared a final dividend of $0,315 compared with $0,353 in 1994



GLITTERING PRIZES *Julian Ogilvie-Thompson, chairman of De Beers, casts his eye over one of his larger gems* PHOTO JOHN WOODROOF

☐ See Page 2

Diamond demand boosts De Beers

(216) BD 6/3/96

David McKay

HIGHER diamond sales, a growing contribution from SA's Venetia mine and a resumed dividend from Namibian mining operation Namdeb combined to lift De Beers' turnover and attributable earnings in financial 1995, the diamond group reported yesterday

The outcome was that De Beers Consolidated Mines, the group's SA arm, lifted turnover to R4,03bn from 1994's R2,98bn. Its diamond account income more than doubled to R1,20bn from R576m and earnings, including those retained by associates, were 655c a share (461c previously) The total dividend was increased to 185c (121c).

In contrast, the dollar-denominated results for offshore arm De Beers Centenary rose to $5,07bn ($4,10bn) A lower $445m contribution from the diamond account ($484m) contributed to a lower pre-tax profit of $412m ($458m)

Taxation was little changed at $96m and earnings per depositary receipt slipped to $0,78 from 1994's $0,89. The year's dividend was cut to $0,422 ($0,503).

Rough diamond sales by the Central Selling Organisation (CSO) were, as usual, lower in the second half of the year than in the first Nevertheless, sales for the year rose to $4,53bn ($4,25bn) even though 1995's first-half sales were fractionally down on the corresponding figure for 1994 Though the CSO's diamond sales increased, diamond stocks rose about 5% to end the year at $4,67bn A fraction of this rise was attributable to a revised first in, first out method of stock valuation

Chairman Julian Ogilvie Thompson said the rough diamond market was aided by the absence of outside rough diamonds, a 5% improvement in retail diamond sales and a recent memorandum setting out likely terms for a final sales agreement between the CSO and the Russian Federation

"The memorandum would extend stability to the market for small rough diamonds and would bring forward the time when quotas could be eliminated," he said. He believed political change in Russia, particularly the possibility that Boris Yeltsin would not be re-elected president, should not affect De Beers' relationship with Russia as the Russians would always want to benefit from an equitable agreement with the CSO

Continued on Page 2

De Beers

(216) BD 6/3/96

Continued from Page 1

However, Ogilvie Thompson did not believe that agreement with Russia would lead to any immediate increase in rough diamond prices

In the wake of the Russian memorandum, the CSO began negotiations last week with Australian producer Argyle Progress was "satisfactory"

A future trade agreement with Botswana would be unaffected by the memorandum with the Russians. "Botswana and Namibia were kept fully informed of the negotiations with the Russians and approved of the line that we were taking," Ogilvie Thompson said.

Worldwide retail sales of diamond jewellery increased about 5% last year with good sales potential in the Far East The group was less cheerful about sales in Germany and France as European economies continued to weaken. CSO MD Gary Ralfe expressed some anxiety over European sales prospects.

Ogilvie Thompson said diamond deliveries from De Beers' mines in the second half failed to match deliveries in the first half

Higher investment income reflected increases in dividend income from major associates Anglo American and Anglo American Industrial Corporation. The overall tax rise to $197m ($133m) was largely accounted for by the inclusion in the De Beers component this year of tax on Venetia's profit.

Picture: Page 17

MAIL & GUARDIAN
March 8 to 14 1996

Destiny of diamonds still in De Beers' hands

(216) 8 MTG 8-14/3/96

Karen Harverson

AN upbeat De Beers — which this week announced a 14% increase in its attributable earnings to R2,25-billion for 1995 — is confident that 1996 will see its control of the rough diamond market strengthen

That control was threatened when Russia began leaking stones into the market in 1993, in violation of its five-year contract with De Beers' Central Selling Organisation It then side-stepped attempts to renew the agreement, which expired in December

Finally a memorandum was signed last month between the government of the Russian Federation and De Beers to defuse the crisis It covers the principles of a new three-year trade agreement, which could be signed by the end of this month, said deputy chairman Nicky Oppenheimer

It reconfirms De Beers as the sole buyer of diamonds destined for export from Russia (about 50% of run-of-mine goods). As allowed in the previous contract, Russia can sell a 5% cut of every shipment as a price-checking mechanism, for the lower quality stones, this will be increased to 20%

"This is very different to our standard contract with Botswana, Namibia and Australia, where there has always been a firm relationship between the price we buy at from the producers and the price we sell at to the market," says Oppenheimer, adding that this was never the case with Russia.

The memorandum also clears up misunderstandings surrounding part-processed goods.

Russia had been privately selling what it termed part-processed stones (sometimes with a single facet), which De Beers termed rough. But, said Oppenheimer: "These goods now form part of our exclusivity agreement."

Another area of dispute that the new agreement will resolve is the definition of technical diamonds "Many of these technical diamonds have become polishable in India and we have agreed to redefine what are technical diamonds today rather than what they were yesterday," said Oppenheimer

Although half of Russia's run-of-mine goods will be kept by Russia for its cutting and polishing industry, De Beers is entitled to buy whatever is unable to be polished

Of the stones supplied to De Beers from Russia's stockpile — believed to be mainly lower-quality diamonds — an average price will be agreed upon in advance

With the Russian threat behind it, De Beers can focus full attention on Australian producer Argyle whose contract expires in June

Argyle — mainly a supplier of small, low-quality stones — has also blustered about going it alone, but sources report it doesn't have the power Russia had to derail the De Beers cartel

"With all the uncertainty of last year, the lower end of the market lost value rapidly but with the new Russian deal, it should stabilise and it's in Australia's best interests to sign up again with De Beers," says a diamond analyst.

DE BEERS

BACK TO THE GOOD TIMES

(216) FM 8/3/96

A mood of quiet confidence is evident among De Beers executives.

After the results for financial 1995 were released this week — chairman Julian Ogilvie Thompson has cause for his display of optimism

The diamond mining and marketing giant, one of the pillars of the Anglo American Corp group, has returned a 21% increase in equity accounted earnings After-tax earnings rose to R3,6bn (1994 R2,9bn) The dividend is up 13% to 339,1c per linked unit

The renewed confidence element — noticeably absent from De Beers for some years — has its roots in a number of important events

But the most significant of these is De Beers' success in persuading the Russian Federation to renew the marketing agreement with it on an exclusive basis for another three years

This also poses the biggest challenge for 1996 — making sure it works and that the wholesale cheating which characterised the last agreement isn't repeated That aside, the deal won by deputy chairman Nicky Oppenheimer has sent ripples of relief through the world diamond industry and immediately restored an important measure of stability

SPARK(L)ING

Year to December 31	1994	1995
Diamond account (Rm)	2 215	2 748
Investment income (Rm)	692	805
Attributable (Rm)	1 975	2 256
Earnings (c)*	773	938
Dividends (c)‡	299,6	339,1

* Incl retained earnings of associates, ‡ Per De Beers linked unit

Another factor is that the retail jewellery business — the market in polished stones which underpins the entire De Beers operation — again returned an increase of 5% around the world Notably, this growth was led — for the fourth successive year — by US demand, where more people acquired diamond pieces than ever


Ogilvie Thompson

This spills over into the rough market, essentially that sector of the business in which the Central Selling Organisation (CSO) plays such a dominant role CSO MD Gary Ralfe says the rough market is now stronger than for some years A sea change in demand for large goods last year — demonstrated by two price increases for stones of two carats and larger — has been maintained Sales of these are now at uncomfortably high levels and are beginning to have an impact on smaller goods

And despite heavy sales and over-production by the Indian cutting industry (which accounts, says Ralfe, for about US$4bn of polished goods or 40% of total production), a surprising strengthening of confidence has become evident Nearly all cutting centres are reflecting decreases in stocks and indebtedness to banks has declined

The signing of a memorandum of agreement with Moscow opens the way for a comprehensive trade agreement, which the Russians say — optimistically — they want completed by end-March

It also clears the decks for the CSO's next hurdle to negotiate a new marketing agreement with Australian diamond miner Argyle, producer of vast quantities of generally poor quality stones used primarily by the Indian trade

Other aspects from the annual results are that De Beers' borrowings have declined noticeably — from $1,3bn in 1994 to last year's $1,1bn

And the group continues to be coy about disclosing information on Venetia, the rich North-West Province producer which it operates on a royalty basis by agreement with Anglovaal (through MidWits) and listed ICH

But the latest numbers suggest that Venetia's contribution to De Beers' SA activities may have been as much as R650m (of a total of R1,2bn) And if this is correct, MidWits and ICH will in turn reflect the stronger demand and profit flows

Everything now points to a buoyant year for De Beers Early expectations from analysts have risen sharply to EPS of at least R11, an increase of about 17% over 1995 This implies a modest forward p e of 11 On present indictions, that signals the counter should be bought

David Gleason

NUM calls for action at De Beers

(21b) CT(BR) 12/3/96

By Ross Herbert

Johannesburg — The National Union of Mineworkers (NUM) has encouraged its local branches to take industrial action against De Beers mines this week in a dispute over holiday pay

De Beers has declared a partial lockout and refused to let workers take leave until they have signed an agreement accepting five days less leave in exchange for higher pay.

"While employees have the right to strike, we have the right to lock out

"This is just the flip side of going on strike," said Jeff Leaver, the industrial relations manager of De Beers.

"You have to go through a procedure of negotiations That procedure was exhausted some time ago Both parties got to an impasse and saw no further benefit in negotiating," he said

The company's stance has angered the NUM national leadership

They maintain that forcing workers to agree to fewer days leave is an unfair labour practice

Workers at De Beers have annual leave rights, unlike at many other mines where contract workers work nine months on and three months off

Leaver said De Beers was trying to institute 21 days of annual leave for all workers. For some mines, this was five days less than at present, he said.

Leaver said 58 percent of eligible workers had signed the new agreement, which would raise their earnings by the equivalent of five days' pay

The union said it would consult its lawyers today about whether members must hold a ballot before striking. The issue of leave was part of the reason for the 10-day strike at De Beers mines in October

Judith Weymont, the NUM spokesman, said its lawyers would determine whether a new ballot was needed or whether a strike would be legal under the October ballot.

Weymont said the union would hold a general meeting this weekend to decide whether to go ahead with a nationally supported strike.

Billion rand diamond scam 'aimed at De Beers'

ARG 16/3/96

2/6

Russians 'implicated in bid to win bigger market share'

■ A multi-million-dollar diamond scam involving senior members of the Russian government has stunned investigators.

SAN FRANCISCO — A complicated diamond swindle in which a company lost $US 500 million (R1,9 billion) may have been part of a Russian plot to force the De Beers diamond cartel to allow Moscow to sell more than its allocated quota of precious gems on the open market

American investigators believe up to $500 million may have been stolen from an obscure San Francisco diamond-cutting company in a bizarre scam involving members of the Russian government

It may be the biggest crime to involve Russia and America, even seasoned detectives trying to unravel it have been stunned by the audacity of those involved

Janet Reno, the American attorney-general, has made the case the Federal Bureau of Investigation's top investigative priority

Court documents made available last week revealed that the affair began in 1992 when Andrei Kozlenok, a 32-year-old Russian described by one insider as "a slick scammer", arrived in San Francisco and set up Golden ADA, a diamond-polishing company, apparently on Moscow's instructions

Mr Kozlenok reported to Komdragmet, the Russian committee on precious metals and gems which controlled exports

Yevgeny Bychkov, its director, was sacked by President Boris Yeltsin two weeks ago

Together with two Armenian brothers, Mr Kozlenok took delivery not only of Russian diamonds for polishing, but also of gold coins.

These were melted down and sold for $90 million (R350 m)

A consignment of diamonds was sold in London for another $10 million (R39 m)

Then Mr Kozlenok went on an extraordinary spending spree

Within weeks, he had bought three houses for $3,8 million (R14,8 m), boats, five condominiums, a $20 million (R78 m) Gulfstream jet, a helicopter, a Rolls-Royce and several Aston Martins

In early 1994, Moscow shipped over a further $89 million in uncut diamonds from Russia to be cut and polished

Mr Kozlenok immediately sold them on the open market in Antwerp for $70 million (R273 m) and went on another spending spree

Soon, however, things started to turn sour

Officials in Russia demanded to know what had happened to the polished diamonds and the money Mr Kozlenok was supposed to be sending back

They began pushing him for payment

Russian authorities claim their losses amount to $171 million (R666 m), but the figure could be much greater, according to sources

Mr Kozlenok has disappeared, as have his Armenian associates

But, the repercussions are continuing throughout the diamond world

Investigators probing the Golden ADA scam believe it may have been part of a subtle manoeuvre to improve the terms of Russia's contract with De Beers, the South African cartel

Under the agreement, Russia is permitted to sell only 5 percent of its diamonds on the open market

Russian officials believed the contract was too restrictive.

By putting diamonds on sale outside the control of De Beers, the Golden ADA operation threatened the company's long-established control of supplies and prices and could have destabilised the industry

"The Russians wanted to give the impression to De Beers that there was an alternative market and that they had the capacity to reach that market," said one investigator

Two weeks ago, as the FBI and other American agencies were tightening the noose on Golden ADA's San Francisco operations, Russia renegotiated its diamond contract with De Beers

The new agreement allowed Russia a significantly larger quota for direct exports of its uncut stones in a deal seen in the diamond industry as an important victory for Russia over De Beers — The Sunday Times, London

Mine resumes work in sensitive area

(216)

PIETERSBURG — Madimbo Diamond Co has obtained a court order to start alluvial diamond mining and prospecting in the Madimbo corridor along SA's border with Zimbabwe from today.

Northern Province environmental affairs and tourism minister Marie-Stella Sexwale-Mabitje had used the Environmental Conservation Act to stop the mining, which was to have resumed on March 11. The National Parks Board has appealed to the mineral and energy affairs ministry to have the mining permit reviewed.

The area encompasses Mashakatini, recently declared a nature reserve, which is part of a migration route for elephant and buffalo.

Environmental affairs spokesman Danny Msiza said the Madimbo corridor was an ecologically sensitive area which should be used for ecotourism. It also contained archeological sites which had yet to be explored.

Stakeholders met several times in the past week, but were unable to resolve the dispute. Sexwale-Mabitje is expected to announce further steps this week. — Sapa.

BD 18/3/96

De Beers hopes to sell farms with diamond mining potential to small operators

(216) CT (BR) 18/3/96

BY JON BEVERLEY

Durban — De Beers is offering 53 farms for sale with potential for small diamond-mining operations as part of the company's plans to dispose of all its "small" interests

The company announced today the decision was prompted by the considerable interest shown by small-scale miners and junior mining companies and by a desire to enable previously disadvantaged South Africans to obtain a stake

A number of the more attractive properties have documented alluvial diamond associations The mineral rights cover over 100 000ha

De Beers has consulted Investec Merchant Bank on the disposal of the mineral-rights holdings

The preliminary announcement will be followed by a fully detailed advertisement next week

Prospective buyers would have access to the geological investigations and, where appropriate, of the mining records of the properties, the company said Prospective buyers will also be able to get information on the Internet (http //www debeers co za), but this information will not be available to users in the United States

The farms are in the traditional alluvial digging areas of Lichtenburg, Ventersdorp, Bloemhof, Wolmaranstad and Schweizer Reneke De Beers is also selling the Lace mine and dumps and farms in the Free State at Kroonstad, Theunissen and Viljoenskroon, and at Cullinan, Kimberley and Warmbaths

There are three "hard rock" properties (a mine, a fissure and worked rock dumps) which would be suitable for exploitation by experienced mining companies and would offer sizeable employment opportunities.

A spokesman described them as "perfectly decent small mines but too small for De Beers"

The fissure is surrounded by other working fissures and could be absorbed into these properties

The most valuable properties are likely to be the 33 alluvial diggings which can produce valuable gems worth R1 000 a carat

It was not possible to ascertain the diamond output, the number of jobs, diamond qualities or what De Beers would raise from the sale of the mineral rights

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Sydney — RTZ-CRA and Ashton Mining, the partners in the Western [illegible]ustralian [illegible] mine, have [illegible] threats to leave the De Beers-con[illegible]lled Central Selling Organisation and market diamonds from their [illegible] cartel

The threats [illegible] Ashton announced a disappointing profit of [illegible] million (a[illegible] 32 240 billion), down from A$31 million last [illegible] part on the organisation's deferred [illegible] A$100 million worth of Argyle dia[illegible] been marketed through the organisa[illegible] production more than 10 years ago, but [illegible] De Beers runs out in June. — Lachlan Colquhoun

Stage set for legal battle as prospecting along Limpopo starts

(216) Star 19/3/96

Dispute over whether diamond company is damaging environment

By Anita Allen
Science Writer

Madimbu Diamond Corporation (MDC) has begun prospecting in the Madimbo Corridor along the Limpopo River despite a written instruction from the Northern Province ordering them not to go ahead

Dr Greg Krull, chief director of Northern Province's department of environment, said yesterday: "They have now said that unless we get a court order, they intend to go ahead with prospecting In fact it started this morning"

The issue is set for a legal battle which will be a test case for the protection afforded the environment under section 31a of the 1989 Environment Conservation Act

At issue is whether open pit and trench prospecting for alluvial diamonds will damage the environment A Department of Environment and Tourism (DET) report in 1995 concluded that prospecting in the area could result in an arid moonscape.

"No sustainable development of land use would be possible" and prospecting would negate a Northern Province development plan for the Madimbo area," it said

The latest flare-up started on March 8 when Northern Province Environment MEC Maris-Stella Sexwale-Mabitje was informed that MDC intended to start prospecting on March 11.

Parties opposing the prospecting were caught short They had lodged an objection against the granting of the permit by the regional director of the Department of Mineral and Energy Affairs (DMEA), and had assumed the objection would halt prospecting

"Apparently there are a number of precedents where an appeal cannot stop prospecting because it is not a court order. But, on legal opinion, we are contesting this," Krull said

In addition, Sexwale-Mabitje notified MDC on March 8 that she was exercising powers granted to her under section 31a of the Environment Conservation Act According to this, as an MEC, she may in writing direct any person to stop an activity that damages, endangers or is detrimental in any way to the environment

MDC, which is jointly owned by two South African directors and the Australian mining company Moonstone, have decided to challenge the section 31a instruction

"The purported directives are vague and therefore unenforceable And in any event our actions will not seriously damage, endanger or detrimentally affect the environment," MDC general manager Dennis Wilkins said

Advocate Duard Barnard, who drew up the objection to prospecting on behalf of the National Parks Board, said section 31a denied the right to any prospecting

"It is my opinion that the NPB appeal suspends the permit, and no prospecting should take place until a decision is made by the mineral and energy affairs director-general," Barnard said.

Hennie Taljaard, director of mineral rights at the DMEA, said that until a decision was made by his director-general, prospecting could not be stopped

Barnard said the defence force, which currently manages the Madimbo Corridor, would be obliged under section 31a to stop any prospecting.

Col Seakle Godschalk, senior officer SANDF environmental services, said. "We cannot deny MDC access, but we have informed them they may not carry out activities that could seriously damage, endanger or negatively impact on the environment."

The Madimbo wilderness area along the Limpopo River Valley has been identified by every relevant conservation authority as a vital link in long-term subcontinental protected-areas planning

Despite this, in what has been described as a series of bureaucratic blunders, the DET raised no objections to granting a prospecting permit when consulted by the DMEA. As a result, MDC's application was approved by the Northern Province regional director of the DMEA

Madimbo prospecting runs into legal flak

Written instructions in terms of Environment Conservation Act have been violated, says MEC

(216) Star 21/3/96

By Anita Allen
Science Writer

A charge has been laid against Madimbu Diamond Corporation (MDC) for going ahead with diamond prospecting along the Limpopo River in Northern Province

Capt Dolf Botha of the Messina police station confirmed yesterday that an urgent investigation was under way and would be completed as early as tomorrow

"We are not in a position to stop the prospecting, because Madimbu are in possession of a legal permit issued by the Department of Mineral and Energy Affairs," Botha said

The charge was laid by Northern Province Environment MEC Maris-Stella Sexwale-Mabitje for violating her written instruction in terms of section 31a of the Environment Conservation Act of 1989

"It is not my competency to say which of the two laws (the permit or section 31a) is right," Botha said "We will complete our investigation and forward it to the state attorney"

MDC started pit and trench prospecting for alluvial diamonds in the Madimbo Corridor on Monday At least 20 labourers and earthmoving equipment have been moved in and several trenches have already been dug

Dr Greg Knill, chief director of Northern Province environment affairs, said the province was taking out an interdict to halt the prospecting

MDC general manger Dennis Wilkins said prospecting had gone ahead after legal advice indicated that section 31a would be unenforceable.

The Madimbo Corridor has been identified as a key area in long-term ecotourism plans for a transfrontier peace park linking four countries – Mozambique, Zimbabwe, SA and Botswana

The permit was granted last year in what is described as "an astonishing series of bureaucratic bungles" waiting His problem is that for every rumour scotched another springs up The best defence will be for the group to reveal steadily improving results from its major operations *David Gleason*

DE BEERS (216)

29/3/96

MORE DIAMOND FINDS

FM 29/3/96

How close is De Beers to announcing the development of new diamond mines in Zimbabwe and Botswana?

Soon after its success in renegotiating the all-important sales and purchasing contract with Russia, comes confirmation that the company has located promising diamond-bearing kimberlite pipes in both countries

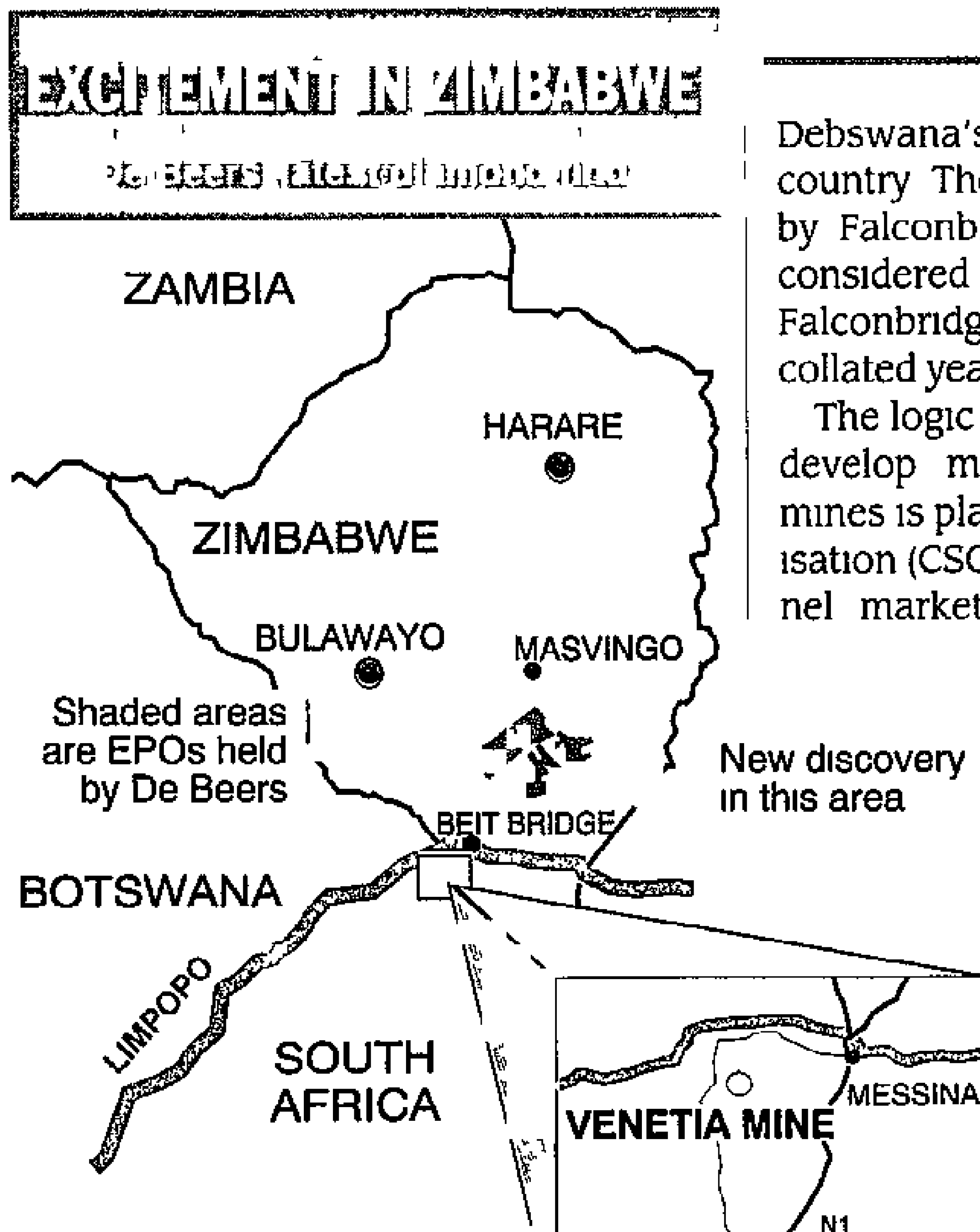
Zimbabwe's mining circles are awash with rumours that a De Beers pipe discovery in the Bubi river area, south of Masvingo and not far from the SA border, is the country's equivalent of Venetia (the wealthy diamond producer near the Limpopo) The pipe — on a farm called Mwenezi — is said to be in the same zone of crustal weakness as Venetia further south and east, though not in the same cluster

De Beers director Robin Crawford confirms the company has located a find in south-east Zimbabwe (see map) "It's a reasonable size," he says, "about 17 ha We are evaluating the pipe which we hold through an exclusive prospecting order (EPO) but it is a complex body with many inclusions and intrusions at surface and evidence of barren ground "

Asked whether it is true bulk sampling is being undertaken, Crawford's response is "No, we're not De Beers intends to drill the pipe in the Mwenezi farm EPO over this year Results so far don't suggest a mine "

His caution is understandable Apparently, many Canadian and Australian juniors are in the area around River Ranch, and that international mining house Rio Tinto has located another diamond-bearing pipe close to the De Beers discovery Activity of this kind, bunched into a specific region, gives an underpin of substance to the rumours

Meanwhile, high levels of exploration are being conducted into what could become three new, though small, diamond mines in Botswana A small cluster of pipes near Martins Drift in the Tuli block area has been the target of intensive investigation and may lead to discussions between De Beers and the Botswana government about how these can be brought to account profitably



Two other target areas are at Gope in central Botswana and a pipe near Orapa, Debswana's first diamond mine in the country The Gope anomaly was located by Falconbridge years ago but wasn't considered of economic interest The Falconbridge find arose from evidence collated years earlier by De Beers

The logic underlying De Beers' wish to develop more of its own producing mines is plain Its Central Selling Organisation (CSO), which offers a single channel marketing system for rough diamonds, is constantly under price and supply pressure Other producers seek maximum prices and guarantees which underpin their ability to produce

Inevitably, the CSO is squeezed This is what the argument with the Russians has been all about The SA diamond leader seeks the security derived from its own controlled sources of supply as the best means of protecting its market position and the earnings of its primary host countries, Botswana and Namibia *David Gleason*

COMPANIES

De Beers exploring Angola

David McKay (216) BD 1/4/96

DE BEERS is to spend up to $75m prospecting for diamonds in Angola

The group — which has been eager to get back into diamond prospecting in the country — said at the weekend that it would prospect across 63 000km² in Quela, Mavinga and Lunda Norte.

The decision follows the go-ahead last week from Angola's council of ministers for three five-year contracts allowing De Beers the right to begin prospecting for diamonds.

De Beers' Angolan representative Jim McLuskie said it was not possible to estimate the diamond-bearing potential of the areas, but they were promising. "Lunda Norte is peppered with kimberlite deposits But some of the prospects could be covered with sandy Khalahari sediments which could be up to 100m thick "

The group was expected to sign a deal with state diamond company Endiama after the council of ministers issued it with a certificate of approval.

The leakage of Angolan diamonds on to the market outside the grip of De Beers' Central Selling Organisation was a major hindrance to De Beers prior to its long-running battle to rein in Russian sales.

An initial task for De Beers was to negotiate with the Angolan government, the UN representative and Unita to make sure its geologists could explore the region safely. De Beers would also have to contend with land mines, planted during Angola's civil war.

Russia, De Beers to finalise diamond marketing accord

216

David McKay

RUSSIA's marketing agreement with De Beers' Central Selling Organisation would be rubber-stamped in a few weeks, the group said at the weekend

A spokesman said details were still being negotiated, but the deal was unlikely to diverge from the umbrella agreement contained in the memorandum of general principles the organisation and the Russians signed in February

The marketing agreement ended two years of anxiety in the diamond industry, as Russian gems leaked onto the market and disrupted pricing

The organisation must now renew a marketing agreement with Australian producer Argyle

Talks were held in Cape Town last month to find a deal as the current set-up expires in June

But the spokesman dismissed reports that Australian mining producer BHP and the Anglo-Australian group RTZ-CRA had approached the organisation about joining the marketing cartel

Analysts believe the move to be imminent as both groups were poised to become diamond producers One analyst said RTZ-CRA and BHP would probably join the cartel as major producers had not done well outside it

Production from BHP's Canadian prospect would probably come on stream later next year or 1998, an analyst said

BD 2/4/96

Russian pact raises price of diamonds

(216) CT(BR) 3/4/96

By Neil Behrmann

London — Diamond prices have risen on world markets since De Beers negotiated an agreement with Russia in February, international dealers said yesterday

At the main dealing and cutting centres, diamonds were at a premium to De Beers' quotes, dealers said They predicted De Beers would raise the prices of the diamonds it sold to dealers within a few months.

De Beers sold an estimated $525 million to $550 million worth of diamonds at its March sight, raising total sales to about $1,6 billion in the first three months of the year The conglomerate has 10 diamond sights, or sales, a year.

Last year De Beers sold diamonds worth $4,5 billion.

"Cheap, rough, uncut diamonds, priced between $30 and $50, have risen between 10 and 15 percent in the past few weeks," said Marcel Pruwer, the head of IES, the Antwerp diamond consultants He said this was because there were fewer Russian diamonds around.

Top-quality diamonds, worth $2 000 or more a carat, are in short supply. Their price has increased about 10 percent since January Prices of medium- to top-quality diamonds have risen between 2 percent and 4 percent

The Antwerp Diamond High Council's index of one-carat polished diamonds, an indicator of market strength, languished at 253 points for 18 months Since June it has risen 3 percent to 261 points

Diamond marketing talks still under way

BD 9/4/96 (2M)

David McKay

TALKS between De Beers and the Russian federation about a new diamond marketing agreement are taking longer than expected

But the mining conglomerate has dismissed market speculation of serious hold-ups in the process.

De Beers said yesterday a formal agreement with the Russians should have been completed by the end of last month

But there was no urgency in the matter as February's memorandum of general principles — which laid down the basic tenets of the new five-year agreement — were sound, he said

The core of the memorandum was that any sales of Russian rough diamonds would be controlled exclusively through the De Beers selling arm Central Selling Organisation (CSO)

In return, the memorandum would allow the Russian federation an increased 12,5% "window" to the open market

The previous five-year agreement between the parties had allowed for a 5% "window"

Details of how the agreement would work had been left up to the CSO and the company which mines most of the Russians' stones, Almazy Rossii-Sakha.

One market source suggested that finalisation of the marketing agreement would not be concluded until after general elections in Russia later this year

However, analysts believe a change in the Russian government would not have any impact on the agreement as the memorandum is more favourable to the Russians than it is to De Beers

In addition, the memorandum had been signed by the Russian finance minister whereas the previous five-year agreement, which was vulnerable to political manipulation, was concluded by officials at Russia's state-owned precious metals and stones committee, Komdragmet

This organisation's priorities have altered with changes in the Russian government.

Australian diamond mine threatens to bypass CSO

BD 11/4/96 (216)

David McKay

AUSTRALIAN diamond producer Argyle increased pressure on De Beers yesterday, warning that it would go it alone on marketing unless the Central Selling Organisation (CSO) gave it better terms

The producer — the world's largest by output — told the Sydney Morning Herald that direct selling into Antwerp seemed a better option than renewing its contract with the CSO

Argyle executives cancelled a meeting with CSO representatives scheduled last week, but more talks were expected at the end of this month De Beers shed 25c to R126 on the JSE yesterday.

The CSO contract requires that 78% of Argyle's production — 40-million carats a year — should be sold through the CSO. The contract expires at the end of June.

The producer wants better prices and a higher selling quota The CSO deferred the purchase of 25% of Argyle's contracted volumes in 1993, forcing Argyle to stockpile, though this was cut to 15% in 1994 The quotas, imposed on all the CSO's producers, are a key mechanism to underpin prices by controlling demand.

Argyle's profitability was damaged by the CSO's price cut of 11% last year at the lower end of the market, which consists of the bulk of Argyle's output A De Beers spokesman said the group was hoping to continue negotiations

Diamond company has cash and expertise

Ocean set to secure Island concessions

(216) CT(BR) 15/4/96

BY MARC HASSENFUS

Cape Town — Ocean Diamond Mining Holdings looks set to secure prospecting rights for the Namibian Island Extension concessions, a grant that could significantly boost the group's mining output and profitability

Andre Louw, the managing director, was reluctant to comment, but said the company was keen to secure prospecting rights in this area.

Sources maintained that the company would be awarded the rights and indicated that a Namibian government announcement in this regard was imminent

The prospecting rights have been in the balance since Walvis Bay and the Island areas were reincorporated into Namibia Since then, the company's prospecting rights application for the Islands, initially secured through the acquisition of Island Diamonds, have been under consideration.

The source said the company was on good terms with the Namibian government and the positive spin-offs for the country from the group's mining operations would also count in their favour

The prospecting area, which comprises the seaward extensions of territorial waters around 12 islands near Luderitz, measures roughly 6000km² and is believed to contain viable diamond deposits

The concessions are adjacent to Ocean Diamond's deep water operations, which are yielding impressive hauls as reflected in the group's bottom line profit of R2 million in the half-year to end September 30

Market watchers expect about R4 million for the full year

The source emphasised that the company had the cash and expertise to handle this large mining area

A rare gem indeed

Cape Town — Ocean Diamond Mining Holdings has succeeded as an independent producer of marine diamonds in a sector dominated by De Beers.

The company was reverse listed into the cash shell CRB Holdings and quoted on the JSE's mining-exploration board in 1992. It listed on the Namibian Stock Exchange in early 1994.

Andre Louw, the managing director, was an exploration geologist and mining analyst on Sanlam's investment team.

The Sanlam connection remains, with the company holding a 14 percent stake in the company. The British-based Ellerman Holdings is the biggest stakeholder with just more than 15 percent.

Concentrating on sampling reserves saw the company post operating losses for the first few post-listing years, but the acquisition of mining vessel, the Namibian Gem, buoyed the group's profit prospects and by the mid 1990's [illegible] ferred its listing to the Diamond board.

The company's shares trade at 280c, a premium on net asset value of about 230c a share, but well off a 12 month high of 375c.

Ocean Diamonds operates two diamond mining vessels, the Namibian Gem and the Oceandia, and has a balance sheet which shows it can sustain extensive mining and exploratory activities, thanks to a R57 million rights issue in late 1994 which it used to to harvest meaningful yields in its sea concessions off the Namibian coast.

COMPANIES

Bright future for diamond sales

(216)   BD 17/4/96

David McKay

THE outlook for diamond retail sales was good, with consumer demand for diamond jewellery having set another record last year, De Beers chairman Julian Ogilvie Thompson said in the diamond producer's annual report.

The growth of the diamond retail market also depended on a continuation of world economic growth, he said

Ogilvie Thompson said the Central Selling Organisation (CSO) — De Beers' diamond marketing arm — had restored stability in the market for rough diamonds above half a carat, and profitability was returning to the cutting centres.

The CSO is poised to sign a new formal five-year diamond supply agreement with Russian producers.

In terms of a memorandum outlining the principles on which the formal agreement would be signed, De Beers would receive an exclusive supply of diamonds from Russia, while the Russian cutting industry would be formally recognised by De Beers.

"The agreement between the two major producers augurs well for the future of the diamond industry," Ogilvie Thompson said.

The stability, confidence and prosperity of the marketing agreement between the Russian federation, De Beers and the CSO had been a central commitment of the three parties from the beginning, he said

De Beers in court on Friday

BD 17/4/96 (2#) (216)

Business Day Reporter

THE National Union of Mineworkers (NUM) is to take De Beers to the Industrial Court this Friday on charges of unlawful and unfair practice for allegedly breaching employment contracts at the Venetia and Namaqualand diamond mines.

Reuter reports the union said yesterday that De Beers had reduced certain workers' annual leave by six days. Papers were served on the company yesterday.

The union was seeking to have De Beers' lockout over leave declared unlawful

The NUM said workers had been given letters by De Beers, when they applied for annual leave, laying out changes to their employment contracts

"Our members have been forced to sign under duress. We regard this as unfair labour practices," NUM assistant general secretary Gwede Mantashe said.

De Beers said last night it would oppose the application.

The company claimed that more than 70% of employees had accepted a proposal — which the NUM rejected during negotiations last year — which involved aligning leave conditions in return for an additional wage increase at operations where the mineworkers' union was recognised.

This had required reduced leave of five days a year at the Venetia and Namaqualand mines, De Beers said.

Agreement on the proposal could not be reached with the NUM, the company said

De Beers had been left with "no alternative" but to implement a lockout to persuade workers to accept the proposal.

DE BEERS

READY TO MOVE OFF THE LONG EARNINGS PLATEAU

(216) FM 19/5/96

But the Russian imbroglio hasn't yet been fully resolved

It has come through rough waters before This time, though, the world's principal diamond mining and trading company, De Beers Consolidated, looked set for a titanic struggle with Russia, the outcome of which was uncertain

As the two sides stuck obdurately to their positions, the pivotal dealers and cutters, who make up the backbone of the global diamond jewellery business, exhibited increasing nervousness December 31 last year was noted as D-day, the day on which the sales and buying agreement between De Beers' Central Selling Organisation (CSO) and the Russian Federation's Komdragmet would run out

Much earlier, the *FM* suggested December 31would be shrugged aside by both sides as they sought a *modus vivendi* they would carry on until a new agreement was forged This is what happened

When, ultimately, De Beers signalled a deal had been initialled in Moscow — a memorandum of understanding around which a detailed nuts and bolts deal has still to be thrashed out — the market visibly relaxed

That hid weeks of steadily intensifying drama

Those in the know are well aware that Yevgeniy Bychkov, the rumbustious head of Russia's principal precious metals and diamond marketing agency Komdragmet, had been calling the shots on the Russian side However, an embattled President Boris Yeltsin implied self-enrichment when he fired Bychkov and other apparatchiks in a cleansing of his Augean stables Within weeks, Nicky Oppenheimer — the CSO's chairman and De Beers deputy chairman — announced a new deal for the sale and purchase of Russian rough

Unfortunately, it may still not be quite plain sailing and the celebrations may have been premature De Beers officials resumed negotiations in Moscow on April 10 and 11 The two sides are said to have been polite, and some Moscow commentators suggest the pact may be in danger of unravelling

The latest argument appears to revolve around what the memorandum of understanding actually means

According to Komdragmet deputy chairman Leonid Gurevich, it means Russia is entitled to a seat on the CSO's executive committee And he says there can be no trade contract "until we get the joint principles settled We are far from reaching any agreements"

On the other hand, Gurevich has a reputation as a maverick and held his post at Komdragmet in defiance of Bychkov It's clear he enjoys high-level patronage when the axe fell on Bychkov, he emerged unscathed and the two men no longer speak

Bychkov hasn't been replaced and it may be that Gurevich is making hay He claims he told CSO MD Gary Ralfe not to bother about this month's talks because they will have no "juridical force" More important perhaps, the sticking point continues to be how small, low-value rough — unprofitable to cut in Russia — can be traded Ominously, it's understood that Russian rough has been traded this month in sizeable parcels in Antwerp, continuing to bypass the CSO

All this hype and excitement hides, however, the essential nature of De Beers, what it is and how it runs its global business An investor buying De Beers gets, first, ownership of a vast portfolio of shares valued at end-December at US$9,3bn (R34bn) and, second, a stake in what is called the "diamond interests" He also gets a share which is a linked unit between De Beers Consolidated (the SA business of mining and investment holding) and De Beers Centenary, based in Lucerne, Switzerland, which holds the group's interests in mines outside SA

Of De Beers' share portfolio, the biggest investments are its holdings in Anglo American Corp and Minorco (the combined Anglo/De Beers' groups principal international mining arm)

Other large holdings are in Anglo American Industrial (Amic), the three JCI companies and some gold mines But the guts of the portfolio is centred on the strategic stake in Anglo and Minorco A week ago, the nondiamond interests were (market) valued at R38,9bn, of which Anglo accounted for R23bn

In mid-April, with the share price on the JSE at R125,75, analyst Des Mayers of broker G O'Flaherty, reckons R102,30 of

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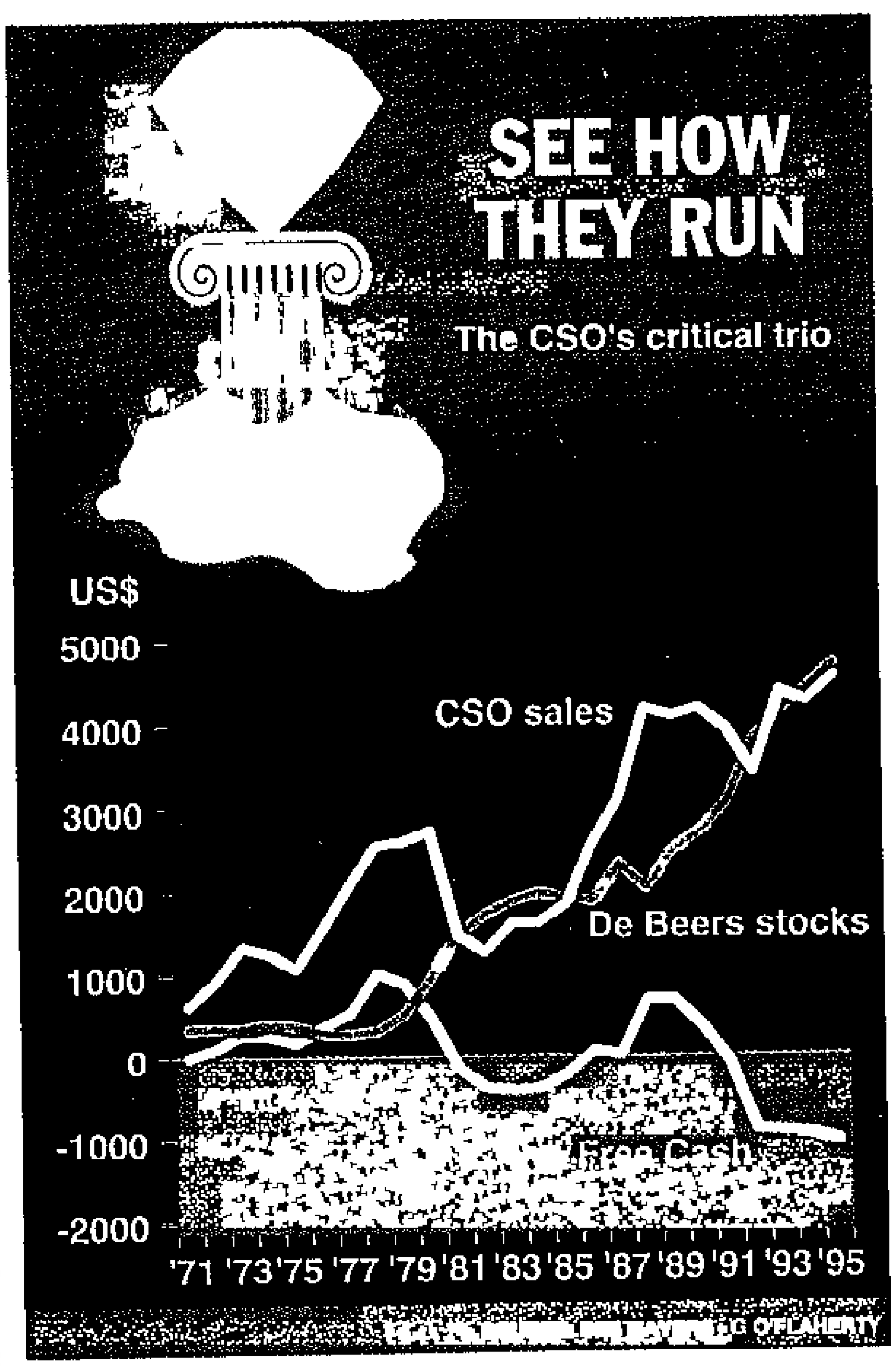


Continued from page 22

it was accounted for by the investment portfolio "This means," he says, "that the diamond interests are effectively being valued by the market at only R23,45" This implies the diamond business of De Beers is accorded a scant rating However, at bottom De Beers is about diamonds, about mining them itself wherever it can, but mostly about selling them into a market in a way which maintains a steady balance

The truth is that there's probably — at a price — a surfeit of diamonds around the world If these were ever to be exploited at maximum production rates, it's unlikely the market could absorb them Prices would collapse and hundreds of thousands dependent on the industry's health would find their jobs imperilled Later, as diamonds became scarce again, so prices would rise and the industry might be partially resuscitated

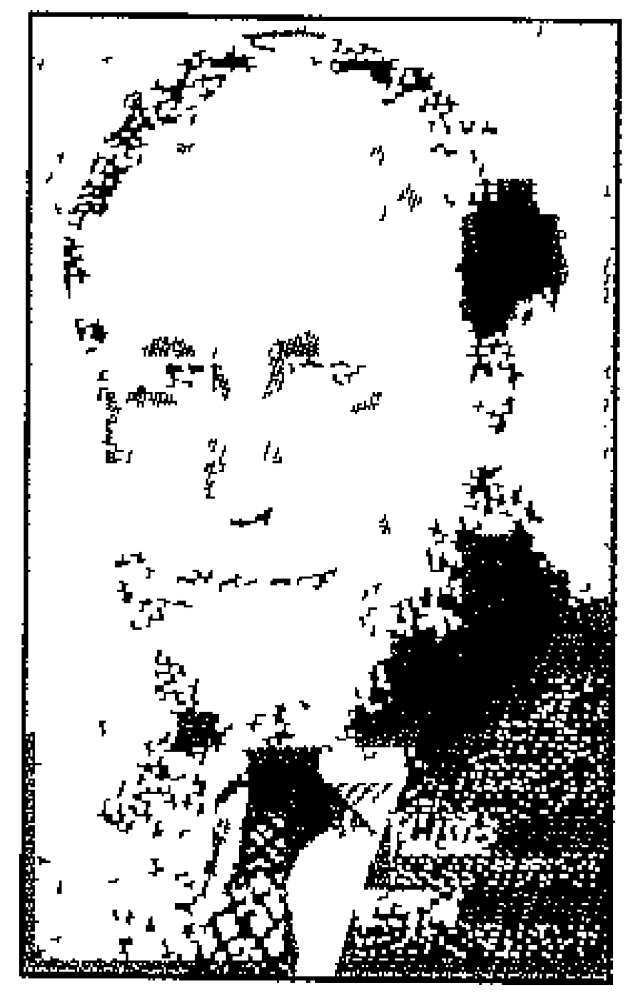
The CSO, controlled by De Beers but also an association of producers determined to ensure stability, operates within a narrow spectrum between self-interest and the industry's greater good Balancing these disparate demands is De Beers' triumph — and its cross

The importance of the deal between the CSO and Russia lies in the Russian ability to produce, it was thought, generally good quality diamonds of the size most sought after by cutters — 0,5 carat and above Inevitably, mines produce many diamonds outside that spec, many of very poor quality Russian excellence entitled it to a substantial 26% stake in the CSO's quota system (since changed under a complex formula)

De Beers' diamond interests are located in two areas The first of these is the CSO's operation, located mostly in London Second, the company operates mines wherever it can, almost exclusively in the subcontinent — in SA, Botswana and Namibia

The cyclical nature of De Beers' business has never been more important to an appreciation of its opportunities — and problems An important boom in the diamond business during the late Sixties was replaced by a downturn in 1974 and 1975 associated with the first oil crisis and a faltering world economy CSO sales dipped for the first time in years, in 1974 to $1,25bn and the following year to $1,07bn It's interesting to note that the famous stockpile was valued then at $391m and $350m — in other words, about a third of sales

This was followed by a major boom from 1976 onwards, when sales rocketed to more than $2bn (in 1977) and reached $2,7bn in 1980 as investors indulged in a headlong chase for real assets In particular, Israeli cutters were massive buyers of rough diamonds, which they effected on the back of bank credit This bubble crashed dramatically, though, in 1981 when CSO sales virtually halved to $1,5bn and fell again in 1982 to $1,3bn


Nicky Oppenheimer

This was the year in which De Beers cut its dividend for the first time since the Thirties, a move which shook the JSE to its core It was also the year when the stockpile for the first time exceeded sales It stood at $1,69bn and, with the exception of three years, it has grown ever since, standing last year at $4,67bn Sales last year totalled $4,53bn, so it's possible to argue — as De Beers does — that the stockpile may seem large but in reality is only a year's supply

As Mayers puts it, De Beers was then forced to curtail its sales programme and clear the pipeline One result is that stock levels shot up Unfortunately, the impact of these turns in the market is felt most noticeably in cash holdings During 1971-1980, De Beers always held a free cash surplus which, at its peak in 1978, exceeded $1bn

However, when the market slumped and De Beers was forced to keep buying stock of rough diamonds from producers, its cash surplus eroded fast Since 1991 the cash deficit has risen steadily and is now just over $1bn

De Beers applies high standards when judging its balance sheet Using those, its underlying financial structure has improved little in recent years

This doesn't mean important ratios, especially borrowings, are out of line, but it disguises the potential for the short-term future

De Beers' business is concentrated in supplying rough diamonds to the world's cutting centres In turn, the centres supply a retail market estimated to be worth about $45bn/year Rough diamonds constitute about $6bn of this, and the CSO now holds between 70% and 75% of this segment

Now that the Russian threat to leave the fold has receded, the remaining major problem concerns Australia's Argyle mine It found itself inadvertently as the ham in the sandwich last year between De Beers and Russia and it's now possible that Argyle will leave the CSO fold

The Russian programme under Bychkov was to sell as much rough or semi-rough as it could to maximise foreign earnings The cutting centres were prepared to pay top dollar for good quality Russian white That left Komdragmet feeding a disproportionate quantity of what is called Indian fancies to the CSO, which it treated as something approaching a useful rubbish bin

The response from London, once the anger dissipated, was coolly to review what it calls its "book" It rearranged prices to pay more for better qualities and a lot less for the junk Unfortunately for Argyle, which produces a mountain of poor quality stones each year, it was hit in its wallet

An understanding of De Beers revolves around its diamond account, heavily influenced by the make-up of the diamond stockpile and what is sold from it (the older the stones sold, the likelier they are to have been bought in at lower prices)

However, what is also clear is that, as the US economy demonstrates a second wind and Japan appears set for a revival, so De Beers, now with its producer troubles largely behind it, can expect to return steadily improving results over the next two years It has already given notice of that with its results for 1995 (*Fox* March 8)

The confidence displayed by chairman Julian Ogilvie Thompson and deputy Nicky Oppenheimer, the latter fresh from triumph in Moscow, stands in contrast to the disconsolate silences of recent years The chances seem good for substantially stronger earnings — from last year's 594c (attributable), Mayers believes it could rise to 800c (using an average exchange rate of $1/R4,10) this year and R10,30 next (applying R4,40/$)

This optimism — much of it justified — shouldn't blind investors, however, to the reality that the Russian problem hasn't yet been comprehensively and finally resolved

Until it is, the counter is unlikely to reflect accurately De Beers' real potential *David Gleason, with John Helmer in Moscow*

No sparkle in diamond mining dispute

(216) Star 22/4/96

Regional government departments find themselves head-to-head on issue

BY ANITA ALLEN
Science Writer

An Australian mining company is continuing prospecting in the Madimbo Corridor along the Limpopo River as the Northern Province urgently seeks a legal way to resolve the matter

At present the Madimbu Diamond Corporation has completed pit and trench digging for diamonds at two sites, and has started on a third.

Last month, Northern Province Minister of Environment and Tourism Maris-Stella Sexwale-Mabitje issued an injunction under the Environment Conservation Act.

She was forced to withdraw it

"There were legal problems with the directive because the mining company has a permit issued by the Department of Mineral and Energy Affairs.

"Effectively, that means one government department would be issuing a directive against another.

"The situation is not clear yet, but we are seeking expert advice," said Danny Msiza, spokesman for Northern Province Environment and Tourism.

In the meantime the DEAT has set up a consultative process involving all roleplayers to discuss the issues

The Madimbo wilderness area along the Limpopo River Valley adjoining Kruger Park has been identified by every relevant conservation and tourism authority as a vital link in long-term subcontinental protected areas

The proposal is for a transfrontier peace park linking the protected areas of four countries in Golden Horseshoe The plan has the full support of the Government of National Unity and land acquisitions have already begun.

Models for the control and management of the Matshakatini Nature Reserve in 1992, were drawn up by the former Transvaal Provincial Department of Nature Conservation and then expanded by Northern Province's Environment Department.

Diamond factory for N Cape

(216) Star 25/4/96

BY JOVIAL RANTAO
Political Reporter

Decades after the first diamonds were discovered in the Northern Cape, the province is to have its first diamond cutting and polishing factory, a move that will generate jobs and ensure that the mines benefit local inhabitants and boost the local economy

Northern Cape Premier Manne Dipico told The Star that negotiations were at an advanced stage between national and international partners for the erection of a multimillion rands factory Local communities in the province are also expected to have a stake in the enterprise

Dipico yesterday signed a mining agreement with visiting Botswana President Sir Ketumile Masire It is through the agreement that Botswana, which has a diamond cutting and manufacturing factory, will help with the establishment of the factory and the training of personnel

"It's a major victory for us because besides the fact that diamonds are mined here, Kimberley has been gradually turning into a ghost city because our product has been developed elsewhere

"We have now reached an agreement with Botswana through which we will receive advice from Botswana on how to go about it," Dipico said

De Beers' Russia deal still faces long delay

BD 26/4/96 (216)

MOSCOW — Russian diamond producer Almazy Rossii Sakha and De Beers will meet for talks on a new diamond marketing deal in May, but the deal could still be far off, industry officials said yesterday.

"I cannot name a precise day, but the meeting will take place next month," said Raymond Clark, De Beers' Moscow representative He declined to comment on the latest round of discussions held in Moscow on April 17-18

But an official at Russia's state committee for precious metals and stones (Roskomdragmet) said the government had not yet worked out guidelines for the Russian side, insisting the actual talks would be possible only after that.

"The sides can have general discussions about the diamond market, but formally there can be no talks on the new deal itself before the Russian side receives concrete directives from the government," the official said.

He did not say when he expected the government to draw up the guidelines for the talks.

"We have always understood that Almazy has been nominated by the Russian government, and this fact (of the government preparing guidelines for Almazy) is not surprising. Similar talks take quite a long time," Clark said.

"The only thing I can tell is that both sides are keen to sign the new marketing deal as soon as possible," he said.

The SA company and the Russian government signed a memorandum of understanding on February 23 governing sales of Russian diamonds through De Beers' London-based Central Selling Organisation, which controls 75% of the world's trade in rough gems.

The memorandum, under which De Beers becomes the exclusive buyer of all rough Russian diamond exports, still needs to be forged into a formal contract. — Reuter.

Madimbo corridor dispute intensifies

(216) Sowetan 29/4/96

By Russel Molefe

THE discovery of high quality diamonds in the belly of Northern Province's Madimbo corridor, has not only sparked confrontation between the mining company and environmentalists, but has also divided two communities

The land in question is near the Zimbabwean border where two communities, the Tshikundamalema and Mutele, were forcibly removed when the then South African Defence Force "annexed" their land in the early 1960s

The two communities have now lodged a claim and want their land back They both claim the land belongs to them – a factor which is causing headaches for the Land Restitution Commission

Intensified dispute

The discovery of diamonds in the region has intensified the dispute between the two communities as they both want exclusive rights to the mineral royalties from the Madimbo Diamond Company

The MDC is owned by New Age's chairman Khehla Mthembu and businessman Richard Bluett

It was granted a permit by the Government to mine diamonds in the area

One of the communities, the Tshikundamalema, has initiated talks with the Mutele community to see if the issue cannot be resolved

The main fears of the Tshikundamalema headman, Josias Mavundadavhi, is that the mining company might exploit the disagreements between the two groups and the area's diamonds without any meaningful benefit for the owners of the land

Mavundadavhi has engaged Chief Jack Mutele of the Mutele community in talks to try and resolve the matter.

But it is still not clear whether ordinary people from both sides support the initiative taken by Mavundadavhi

Clear benefits

The Tshikundamalema headman is also of the view that before any mining takes place in the area it should be clear how it is going to benefit the owners of the land

He says his community has already surrendered some pieces of land to environmentalists but that gesture has not benefited the communities

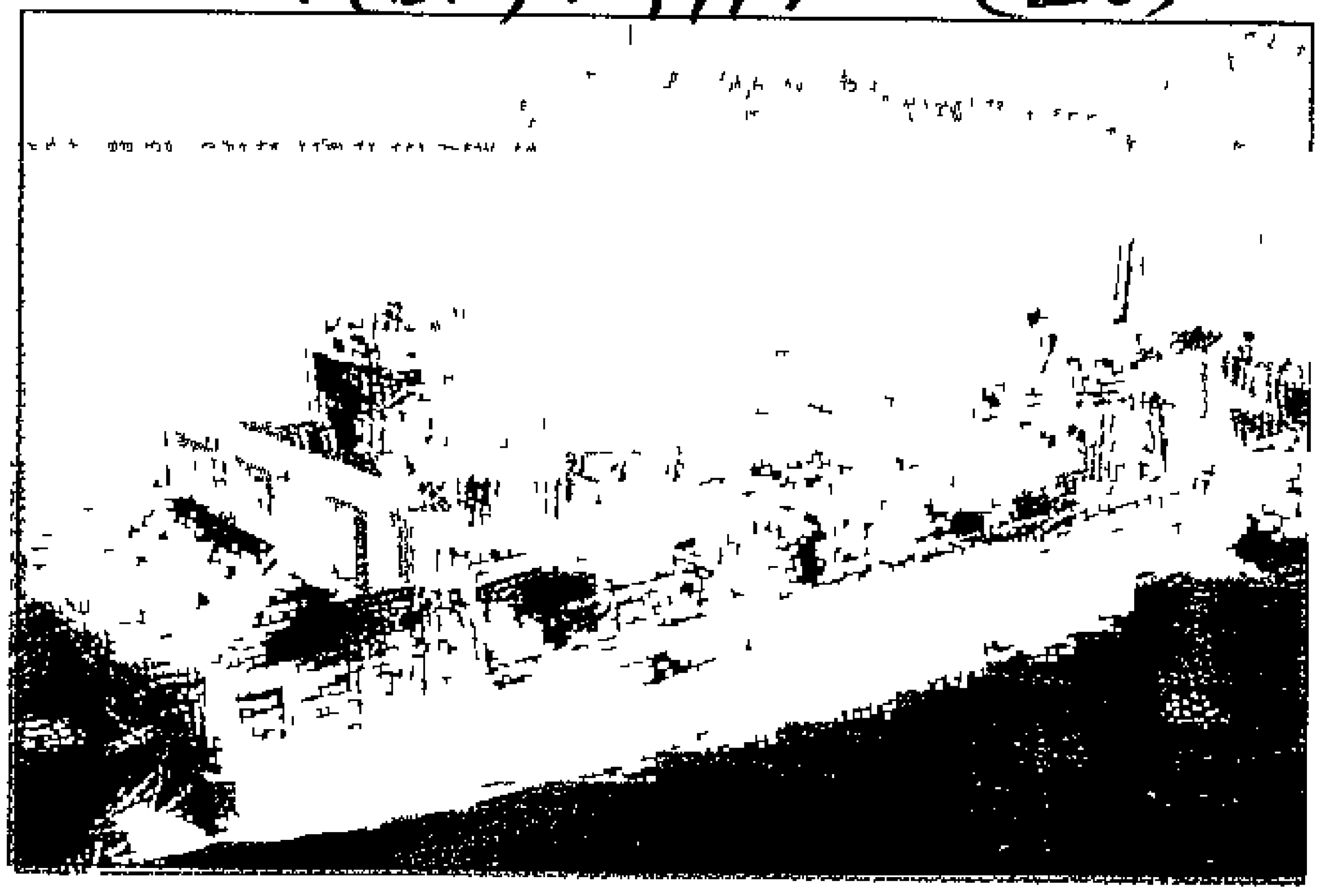
Meanwhile environmentalists at the National Parks Board and provincial department of environment affairs and tourism officials have voiced strong protests about the proposed mining of the Madimbo corridor

Mthembu, the company's co-owner, maintains that MDC has the permit to mine diamonds in the area and "there is no reason why we should stop prospecting"

Ocean Diamond Mining to announce strong results

CT (BR) 30/4/96 (216)

BY MARC HASENFUSS



SHE'S A GEM *A new vessel has led to a surge in production*

Cape Town — Ocean Diamond Mining Holdings, the independent west coast operator, is set to announce strong results for the year to the end of last month because of surging production from Namibian Gem, its new mining vessel

The group will report its results for the year at the end of May It had recorded more than R2 million in bottom-line earnings by the half-year mark

The market is anticipating a good showing from the group, with the shares climbing from R2,80 at the end of last month to R3,60

André Louw, the company's managing director, said in a newsletter to shareholders that production was ahead of schedule. He said 52 310 carats had been produced by January 31, more than double the 21 580 carats produced at the interim stage and well up on the 14 000 carats produced in the previous financial year.

The effects of the weaker rand-dollar exchange rate would only be noticeable in the new financial year

Louw attributed the marked increase in production to the commissioning of the Namibian Gem

He said only 5 percent of total production had been recovered during ore delineation sampling operations by the exploration vessel Oceandia

"Previously, we had to rely on the Oceandia fulfilling a dual role of ore reserve sampling and mining to generate income," he said

He expected the new ship to produce 40 000 carats a year

"Minor teething problems were encountered initially, but the vessel has exceeded all expectations and has offered trouble-free service since," he said

He said it had a 50 ton-an-hour capacity to process sized gravels but that ore grade determined production.

"We are fortunate that with her superior dredging and plant capacity we are able to stretch our ore reserves by being able to economically mine medium- to low-grade reserves."

The company would continue to use the Oceandia to delineate ore reserves ahead of the mining programme

Louw said the survey vessel had sampled about 11km² during the year, recovering 2 580 carats from 2 200 samples

The company's geophysical surveys had improved significantly in the past year, with 285km² covered by 1 400km of line surveys Louw said the bulk of this programme consisted of detailed surveys every 50m over an area of about 30km²

Ocean bucks trend in gem sector

By Marc Hasenfuss

Cape Town — Shares for Ocean Diamond Mining Holdings, an independent marine gem producer, surged 30c to a 12-month peak of 400c this week

The share has appreciated by a third this year, bucking a flawed showing by the sector

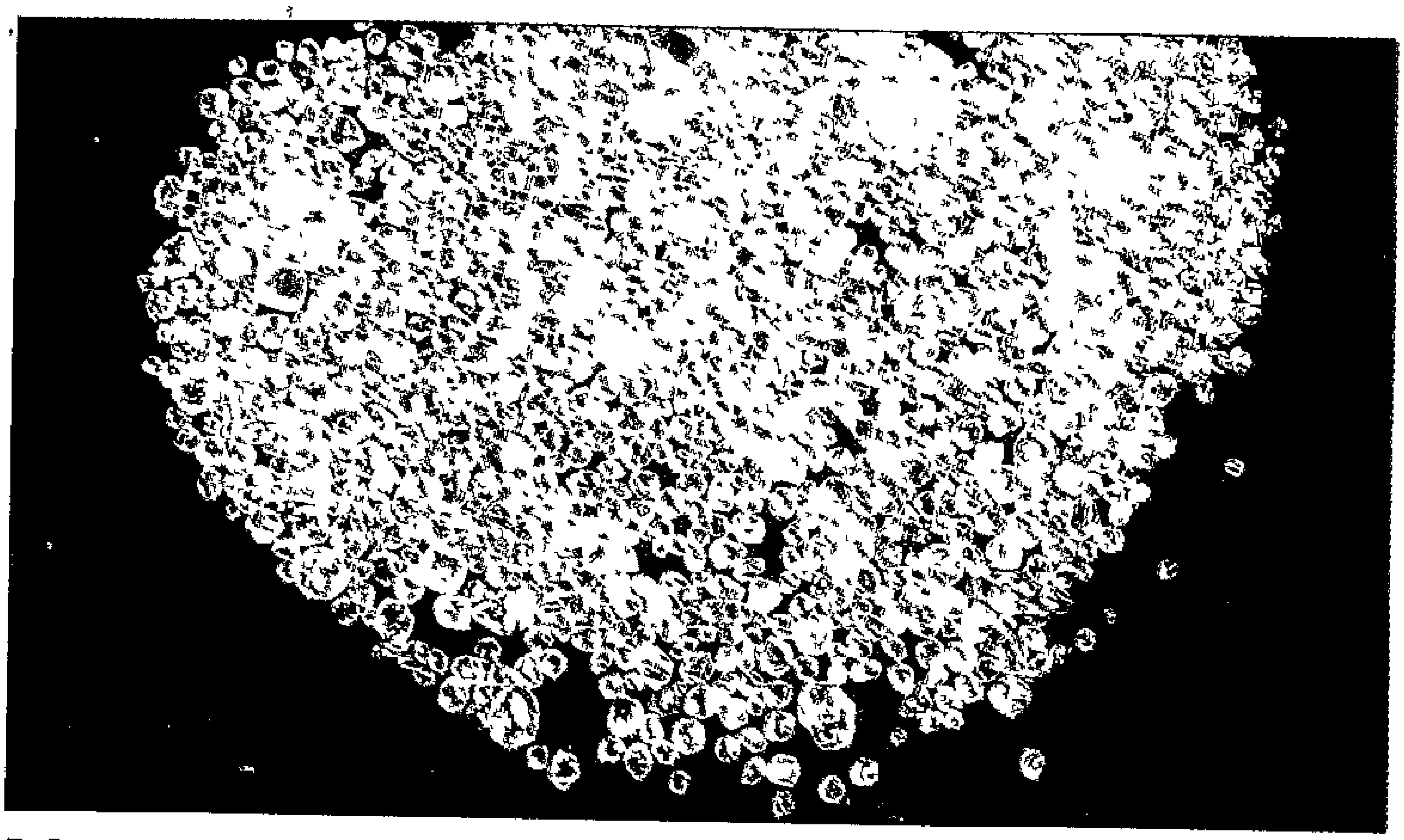
The share has been spurred by news of markedly improved production, which bodes well for end of the financial year results due to be released shortly

The group is also set to be awarded the Namibian island extension concessions, a development that may significantly boost mining output

The weakening rand is another plus for the company Although the currency slump will not show up in the year to March, the 1996-97 financial performance could receive a fillip

(216) CT(BR) 9/5/96

GEM SQUASH



De Beers' west coast diamond operations have proved a handsome investment

Rough diamonds

CT (BR) 15/5/96 (216)

Marc Hasenfuss

CAPE EDITOR

Costs sustained over the past decade by De Beers Marine (Debmarine) for superior technology to scour South Africa's west coast is starting to pay dividends for the De Beers group

Marine production from its Namibian concessions in the last financial year increased 12 percent, or about one-third of Namibian diamond production

The latest available official statistics reveal that Debmarine recovered 457 000 carats of mainly gem-quality diamonds last year

This growth in gem yield is remarkable, especially considering that production in 1990 was 29 000 carats It is also remarkable because of the hit-and-miss nature of marine mining

De Beers entered the marine diamond sector in the mid-1960s when it snapped up a majority share in the Marine Diamond Corporation Between 1970 and 1983 De Beers continued low-key marine exploration and prospecting which established that a large, low-grade diamond-bearing deposit existed on the continental shelf off the west coast

This deposit, however, was located in deep waters and called for a new approach as the existing shallow-water mining techniques were inappropriate Debmarine was established to exploit these deeper-water deposits and started recovering diamonds in 1991

Debmarine emphasised that all current marine diamond mining by other companies was confined to shallow waters De Beers is the only company which has developed the techniques for economic exploitation of marine diamond deposits in water depths greater than 100m and has done so by adapting proven offshore technology with new ideas and equipment

Debmarine provides an offshore management service for the exploration and recovery of diamonds off the Namibian coastline, for concession holders Namdeb Diamond Corporation, and off the South African coast for 10 separate concessions

The group's climbing production figures have largely erased initial scepticism for sustainable gem mining off the west coast Not only Debmarine, which accounts for the majority of production, but also smaller, independent operators have had varying degrees of success, although it has been in shallower waters

The technological advances continue to improve Debmarine's efficiencies and have allowed for the mining of lower-grade deposits which would extend the deep-sea reserves off Namibia and Namaqualand

Debmarine's specialists have overcome the problem of recovering small stones, scattered across hundreds of square kilometres of sea bed and buried beneath metres of overlying sediment, rocks and boulders

The trick is to do so at a sea-bed coverage rate which makes the operation economically viable and to increase the rate by developing improved techniques which increasingly bring areas of a deposit within an exploitable ore reserve

The conversion of the mining vessel, the Debmar Atlantic, was completed in late 1994 to join drillships, the Grand Banks, the Coral Sea, and the crawler deployment vessel, the Louis G Murray, as part of the production fleet

A Debmarine official said "We are constantly striving to improve deep-water mining techniques and these will be incorporated into future production units"

He said Debmarine was installing its latest undersea mining equipment on the vessel, the Debmar Pacific

"Expenditure is being incurred in developing the next generation of equipment which, when proven, could be installed on the newly acquired vessel, the Voyager"

The official said Debmarine, had also made further improvements to recovery methods on the vessels and the resultant improved efficiencies justified a lower cut-off grade with a consequent increase in reserves

He said that with further advances now in prospect it was hopeful that deep-sea mining off the coast of Namaqualand would also become economically viable

Diamond sector analysts have argued that Debmarine's diamond mining ships were effectively some of the largest diamond mines to be commissioned recently

One researcher, however, predicted that Debmarine's research and prospecting expenditure would taper off during the latter part of the 1990s after the heavy post-startup spending

But, the researcher said, there was a remote chance that Debmarine would commission a mining "supership" before the turn of the century

Expansion into other parts of Africa is also on the cards with a group company, Diamond Corporation Sierra Leone, having been granted an exclusive prospecting licence covering 15 867km² off the coast of Sierra Leone An extensive sampling programme is under way there

De Beers takes Russian deals in stride

(216) BD 23/5/96

David McKay

DE BEERS was unfazed by recent agreements between offshore diamond prospecting group Namco and Russian diamond marketing group Almazy Rossii-Sakha (ARS) to build a diamond cutting and polishing factory in Namibia, the group said yesterday

ARS has a relationship with De Beers, having recently signed a five year marketing deal to act as its agent to handle a major portion of the Russian Federation's rough diamonds exports to De Beers

Although the deal has not been officially concluded, analysts said links between De Beers and the Federation had been bolstered by the presence of ARS, with whom De Beers has a good relationship

Responding to claims that Namco could threaten the group's control of marine diamond prospecting off the SA west coast, the spokesman said De Beers had strengthened its position by increasing diamond recovery in the last financial year by about 12%,

Namco — which has applied for a listing on the Johannesburg and Toronto stock exchanges — hoped to produce about 500 000 carats a year from 1997. This was about 50 000 more carats from De Beers' offshore operation De Beers Marine, under contract to Namdeb, in the group's 1995 financial year

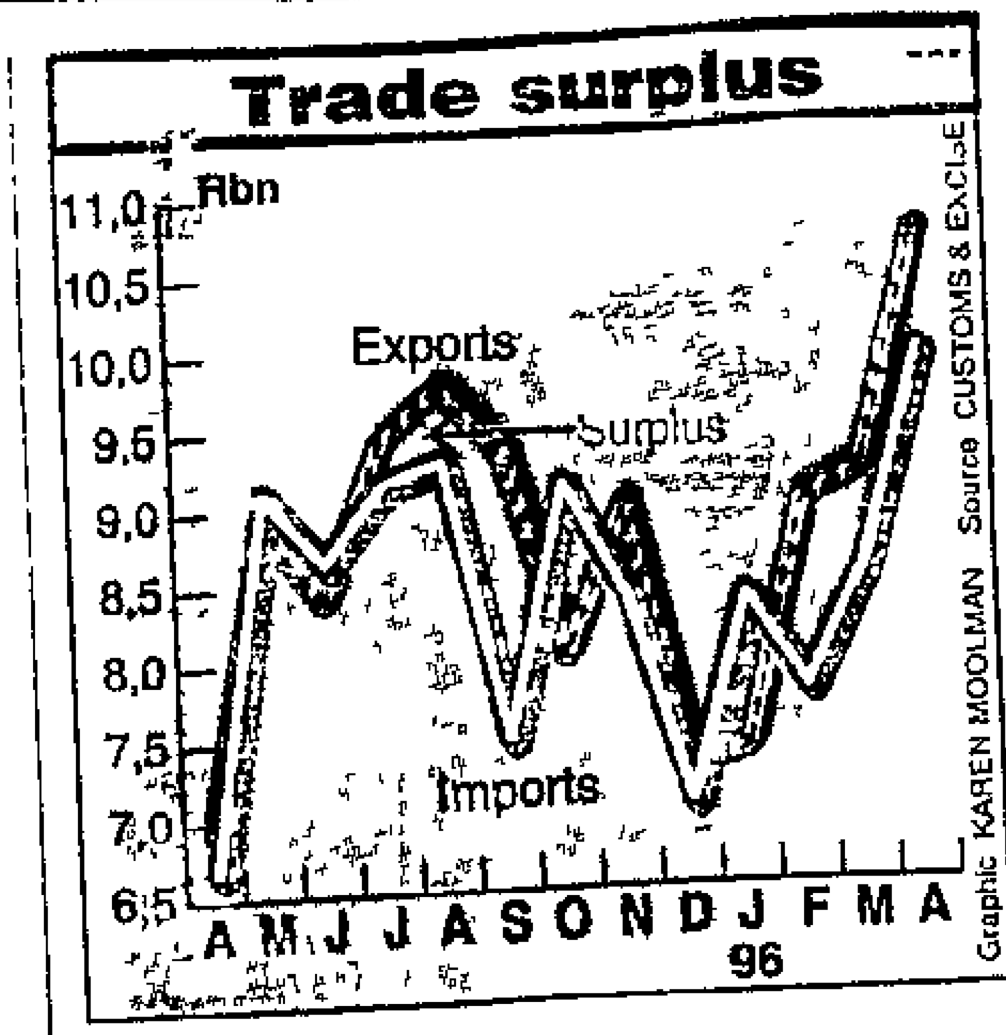
Namco predicted its initial production would be about 150 000 carats a vessel with the objective of achieving a total output of about 500 000 carats as further production capacity came on stream.

Local analysts were not impressed by Namco's claims Namco predicted it would produce about 300 000 carats a year in 1994 but failed to deliver

"They (Namco) will have to produce before the industry takes seriously plans to build a Namibian diamond polishing plant. Until then I am sceptical of Namco," one analyst said

Another analyst said Namco's predictions would not have a big effect on De Beers' marine operations. He said ARS would have conferred with De Beers before signing any agreement with Namco as the Russian marketing agent in deference to the relationship between the two

According to initial prospecting, Namco said gem discoveries in one of its concessions averaged 1 carat, valued at $300 a carat, compared with the average gem size of 0,25 carats usually found on the African coast



Surprise surge in April trade figures

Lukanyo Mnyanda (216)

SA's trade balance, spurred by a R1bn surge in diamond exports, remained in the black last month with a R757,7m surplus compared to R652,9m in March, figures released by customs and excise on Friday showed.

Economists were surprised by large month-on-month increases in both imports and exports. Imports rose to R9,9bn (R8,5bn) while exports went up to R10,6bn from R9,1bn in March. The export figure was pushed up mainly by a R1bn increase in the gems category.

Some economists said the surge in the gems category could be attributed to the inclusion of diamond sales, which had previously been left out, and sales from Botswana.

On the import side, minerals surged and machinery imports continued to grow. Transnet economist Mike Schussler said the large increase in the minerals category, which was mostly made up of oil imports, indicated that the rand's devaluation was "finally filtering through into customs and excise figures". He said the year-on-year 46,3% increase in machinery imports was the highest rise since last June and was a positive indication that SA's capital investment was still growing.

BD 27/5/96 Continued on Page 2

Trade figures

(216)

Continued from Page 1

Old Mutual economist Erika Prinsloo questioned the size of the increase in oil imports, saying the oil price had risen only about 2% since the rand's plunge. "The figures are suspicious because the increase is a bit too much."

She said the high import figure was not alarming as there was still a downward overall trend in imports which would look better once the rand's fall had begun to affect volumes. The weaker rand would help improve the balance of payments and the current account deficit was expected to be around R5bn-R6bn. The current account is the trade balance less net payments for services such as freight, insurance, interest and dividends. "We (SA) have had an average R460m surplus over the last four months and that means last year's pessimism was wrong. Things are looking better."

Nedcor chief economist Dennis Dykes said the trade figures continued to "mystify", adding that the jump in imports may have been caused by people trying to buy imported goods before April's currency crisis had pushed up prices. "But we must treat these figures with caution because they change all the time."

BD 27/5/96

Boost in output swells Ocean Diamond profit

David McKay (216)

BD 31/5/96

MARINE diamond exploration company Ocean Diamond Mining Holdings lifted profit to R5,8m (1995: R106 000) for the year to March due to increases in diamond production volumes and the introduction of a second mining vessel.

Share earnings rose to 16c from 0,4c in the same period last year. Turnover surged 200% to R38,1m as the firm significantly boosted diamond production from 14 289 carats last year to 52 310 carats.

MD Andre Louw said the firm, which mines diamonds off Namibia's coast, was able to increase volumes by buying a second sampling vessel.

It reversed its operating loss of R1,9m in 1995 to a R4,1m profit this year, while net interest received increased to R2,2m (R2m). The tax bill — no tax was paid last year — was R56 000, leaving profit after tax but before payment of a preference dividend at R6,3m (R106 000).

Louw said current mining capacity would provide for a modest increase in diamond production in the next financial year. But increases in the rand value of diamonds — which were expected to continue — would have a positive effect on group earnings, he said.

Louw said commissioning of the third mining vessel, due for 1998, would be dictated by mineable ore reserves identified in the next two years.

"Our exploration programme had shown that the island mining lease which surrounds 12 islands off the Namibian coast contains adequate resources of economically mineable diamonds with excellent grades," he said.

Trans Hex posts a 21% increase in net income

(216) CT (BR) 3/6/96

By Marc Hasenfuss

Cape Town — Trans Hex, the leaner-looking diamond and lime producer in the Rembrandt stable, shrugged off a dip in sales to post a 21 percent increase in net income to R40,4 million to March 31

This translated into earnings of 268c a share The final dividend rose 18 percent to 47c, pushing the annual payout up 11 percent to 81c a share.

Turnover from diamonds slipped 9 percent to R172 million, while sales of lime slumped 20 percent to R32 million

The company's total turnover in 1995 was R278 million, but is not really comparable because Trans Hex shed most of its Industrial Minerals Division

Niel Hoogenhout, the managing director, said the company's strict cost control and the buoyant prices for certain diamonds transformed the turnover drop into an 11 percent increase in operating profits to R73 million.

"Although prices in the diamond market had fluctuated over the past 18 months, Trans Hex had benefited from the recent strong demand and increased prices for better quality, large gems

Hoogenhout said while the diamond division had contributed to the bulk of earnings, Trans Hex's restructured lime division increased its contribution from R300 000 last year to R2 million.

He said new management at the lime division was working hard to increase profitability

The income statement also showed an abnormal item of R1,9 million, which stemmed from the rationalisation of lime activities and related interests. In August the Tylon tile adhesive business was sold to Henkel, while other smaller mineral interests were also sold or discontinued.

Earlier this year all the company's foreign exploration interests were transferred to a Canadian-registered company, Trans Hex International Trans Hex is expected to hold more than half the shares in the new company after a private placement of between C$20-24 million

Benco buys diamond mining vessel

CT (BR) 4/6/96 (216)

By Marc Hasenfuss

Cape Town — Benguela Concessions, the marine diamond exploration company, has bought a 30-year-old vessel which, after a R40 million refit, could mine over 60 000 carats a year

The mining vessel will be used mainly in concessions 2b and 3b off Port Nolloth

Its purchase spurred Benco's share price from R1,80 to over R3 recently

John Gurney, the company's chairman, yesterday confirmed the purchase of the Aberthaw Fisher for $1,1 million "We bought her at the end of February, which was a good time to buy because we just missed the slump in the rand."

Funding details, which could involve an overseas financier, would be released shortly

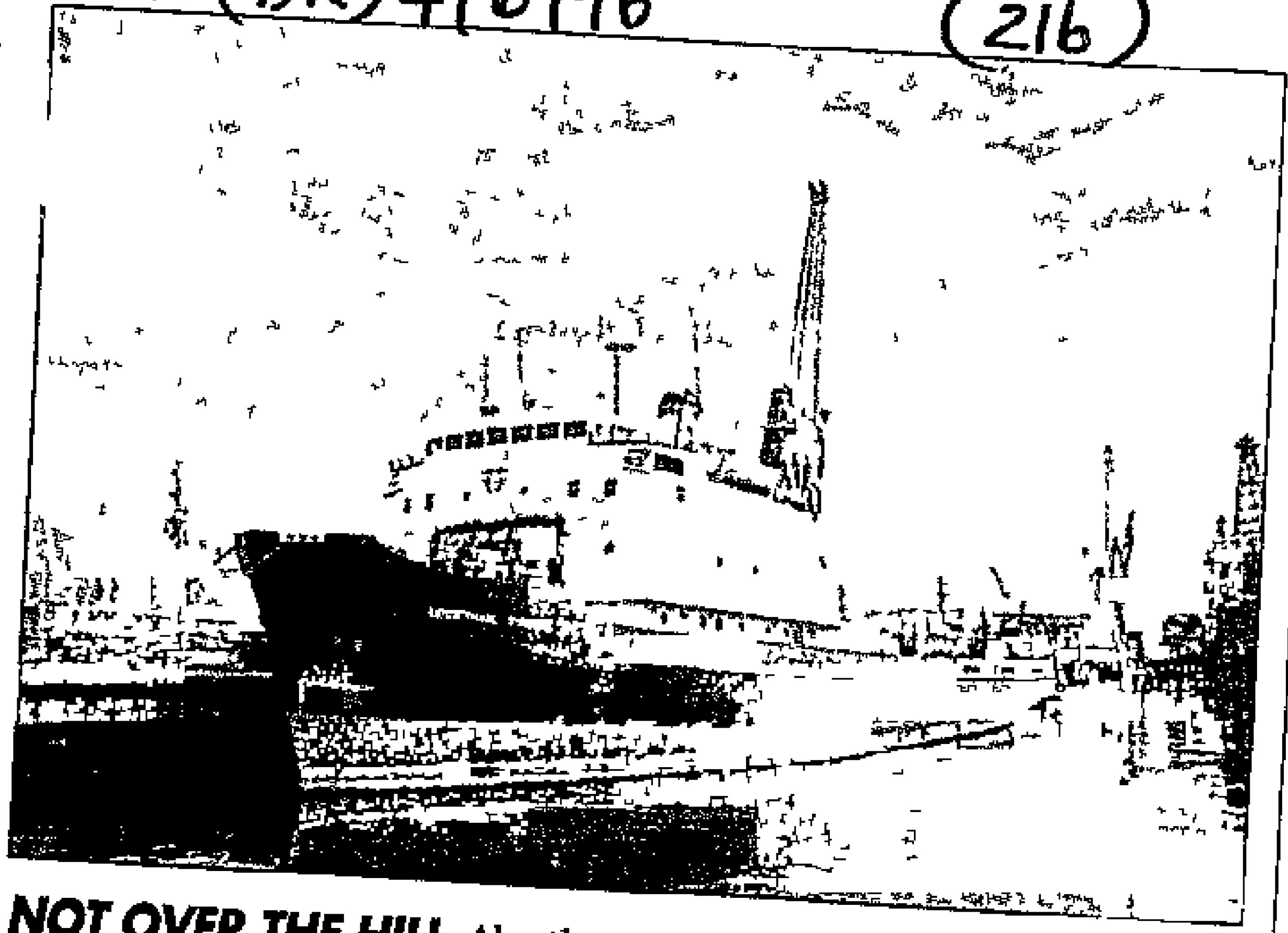
Gurney said about R40 million had been earmarked for refitting the vessel for mining He said the 85m Aberthaw Fisher was used as a delivery ship in Britain "It has an open-space deck and loads of space in the hold for our plant and equipment," Gurney said

"We looked at a lot of vessels and decided this one was the best She was thoroughly inspected and passed all her tests with flying colours

"The vessel also has a Lloyd's rating," he said

Gurney said the refit would include two 20-inch airlifts to suck diamond-bearing sediment on board, and two X-ray diamond sorters

In the year to end May 1995, Benco produced a R3,2 million loss when its activities still centred on sampling and exploration



NOT OVER THE HILL *Aberthaw Fisher, Benco's new vessel, in the repair quay in Cape Town harbour*

PHOTO ANDREW BROWN

☐ See Business Watch

De Beers optimistic about diamond sale performance

(216) BD5/6/96

David McKay

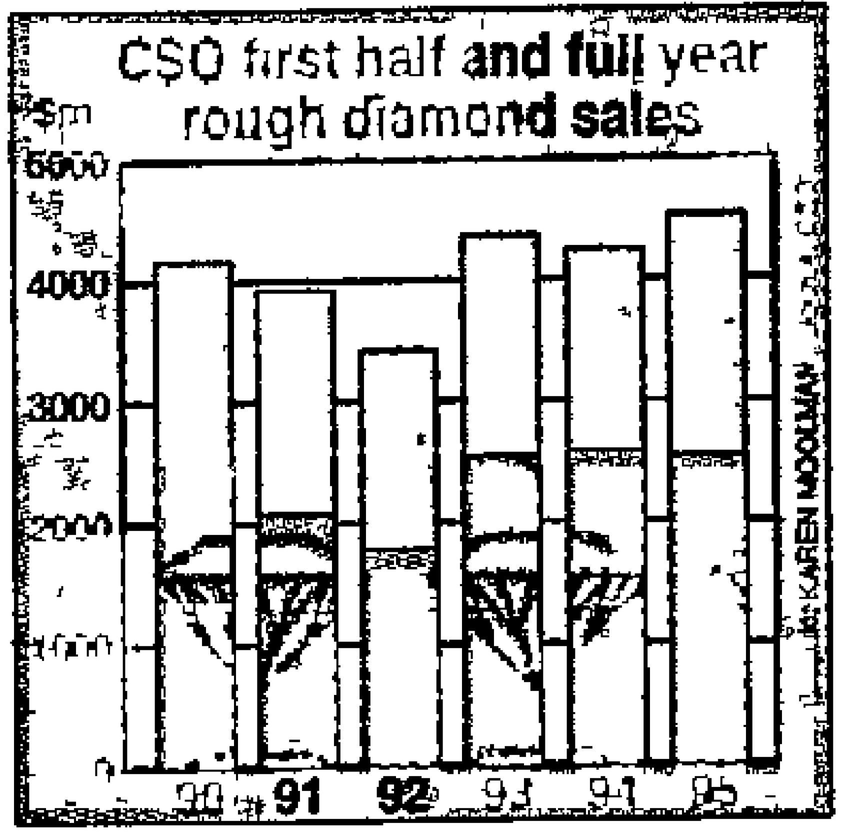
DE BEERS' marketing arm, the Central Selling Organisation (CSO), is optimistic rough diamond sales for the first half of the year could top $2,5bn, exceeding the performance for the same period last year

Executive director Tim Capon declined to say yesterday that sales in the first half would be at record levels, commenting only that they had been pleasing. "The feeling regarding sales is very good. We are optimistic," he said

The slow down in sales from Angola and Russia combined with upticks in the US, Japanese and Southeast Asian markets were reasons market analysts believed record sales were on the cards

The CSO raised total rough diamond sales 7% to $4,53bn in financial 1995 (1994: $4,25bn) with first-half sales reaching $2, 54bn

These sales even surprised De Beers' chairman Julian Ogilvie Thompson who said in his 1995 chairman's statement that the group's rough diamond earnings balanced sales of cheap goods direct to the cutting centres



CSO MD Gary Ralfe said in February when De Beers signed a new provisional five-year marketing agreement with the Russian federation the amount of leaked diamonds at international cutting centres had fallen since the beginning of the year

This was likely to fuel De Beers sales in the first half of this year — helped by a reduction in rough sales from Angola, analysts said

Capon said there had been a slow down in Angolan selling of rough diamonds. "But firmer prices meant Angolan material was being absorbed by the open market more readily."

Commenting on the latest economic crisis in Angola, Capon said De Beers would be unaffected. "De Beers has buying offices and holds licences to prospect in Angola, both of which would be largely unaffected by the crisis.

Reuter reported on Monday that Angolan President Jose Eduardo dos Santos had sacked his Cabinet and banned all foreign exchange dealings in order to deal with the crisis.

Capon said that De Beers had been operating in Angola for about 10 years and had managed to weather the various political problems in the past. "Life will undoubtedly go on," he said.

"It is obviously too early to comment as the news has only just come through, but De Beers and the CSO think that the long-term prospect for business in Angola is good," he said.

De Beers announced in April that it would spend about $75m prospecting for diamonds in Angola. Angolan representative Jim McLuskie said that the group hoped to sign contracts on the three prospecting licences today.

Benco ties up diamond mining deal

(216) CT(BR) 5/6/96

By Marc Hasenfuss

Cape Town — Benguela Concessions (Benco), the marine diamond exploration company, has tied up a joint venture agreement with Moonstone Diamond, an Australian mining and exploration company, to mine two sea concessions off Port Nolloth

Benco already has a joint-venture agreement with the Australian conglomerate Broken Hill for the development of its deep-water and mid-depth concessions

A joint statement from Benco and Moonstone stressed that the deal had the approval of Broken Hill.

The main spinoff of the new joint venture is that Moonstone's local subsidiary, Moonstone Diamond (South Africa), will fund the R44 million refit of Benco's recently bought vessel, the Aberthaw Fisher

The vessel is being refurbished in Cape Town harbour and should be ready for sea trials later this year

The joint venture also marks Benco's entry into medium-scale marine diamond mining in its mid-depth concessions

The company intends exploiting the estimated ore reserves of 350 000 carats at an annual rate of 65 000 carats while extending the reserves by further exploration

The funding deal assigns Moonstone a royalty of 7,5 percent of the joint venture's annual sales until the cost of the mining vessel is recovered

After this Moonstone's royalty will be reduced to between 2 and 4 percent, depending on the level of production

Benco will manage the joint venture and earn a management fee of 4 percent of annual diamond sales During the refit, the management fee will be $50 000 a month

The profit of the joint venture after expenses, royalties and management fees will be shared on an equal basis

The term of the joint venture has been set for 10 years, but provision has been made for extending this period if additional mining vessels are introduced

Benco shed 40c on the JSE yesterday to R2,80 as more than 100 000 shares changed hands on the news of the purchase of the mining vessel

Workers 'retrenched as part of deal'

BD 6/6/96 (216)

Renee Grawitzky

THE promotion of foreign investment in SA came under fire yesterday when the National Union of Mineworkers (NUM) claimed that the work force of a Kimberley diamond mine was retrenched by its SA owner as part of a sale agreement with a Canadian-based company

The union said that more than 100 workers at Don Diamonds mine, which was owned by Diamond Land Mining, were advised of their retrenchment effective from June 30

The union said the workers were retrenched after the Canadian-based company Kensington Resources Limited demanded such action as part of the deal

NUM's regional co-ordinator in Kimberley Willie Lencoe said there was "much talk about encouraging foreign investors, but at what cost?

"Investors are meant to create jobs, not demand retrenchment as part of the package "

No comment could be obtained from either company yesterday

Australian divorce won't break our heart, says CSO

(26) ST(BT) 9/6/96

By JOHN CAVILL

THE decision of Australian diamond producer Argyle to break with De Beers' Central Selling Organisation after 13 years will not bring down the cartel, say analysts

Argyle announced on Friday that it would not renew its marketing contract at the end of June when the existing one expires

The Argyle mine, in Western Australia, is one of the world's largest diamond mines, producing 40-million carats of rough diamonds annually

But De Beers played down the move by stating that Argyle's production was low quality and its sales to the CSO made up only 6% in value terms, of annual intake The retail market for diamond jewellery would not be affected

Some 90% of Argyle's output are low-value small stones which realise an average of less than $10 a carat Its planned sales this year are $390-million — less than 9% of last year's CSO total of $4,5-billion

Stockbrokers T Hoare & Co analyst Roger Chaplin said "This won't damage the CSO Between South Africa, Botswana, Namibia and Russia the CSO will still be handling 76% of world supply and will continue to control the market

"What remains to be seen is what benefit Argyle will derive It will save the 10% paid to the CSO for its charges but that could be eroded if competition between the two leads to further oversupply in small goods "

There are fears that the decision could trigger a short-term price war in the over-supplied small end of the rough diamond market

The Argyle-CSO divorce comes after De Beers cut its selling prices of Indian goods by 11% while increasing those for stones above two carats last year to leave the average level unchanged That was in addition to the 15% reduction in the quotas of production supplies to the CSO

"At the May sight this year the CSO offloaded a lot of Australian goods in what looked like a warning shot to Argyle," says Mark Cockell, editor of *Diamond International*

De Beers denied this was its intention and said it had simply been meeting the needs of its clients But other market sources in London claimed the CSO has been getting rid of Australian stocks because of the increased amount of Russian smalls it will be receiving following the new agreement with Moscow

"Argyle also has a stockpile worth $100-million," said Mr Cockell, "but this will be sold over the medium term and I think it has factored in the possibility of CSO retaliation "

In Antwerp one the of main traders in Indian goods, Dilip Mehta, director of Rosy Blue diamond manufacturers, importers and exporters, showed anxiety in a statement on the break up

"We believe that the single channel marketing system is the best way to maintain the confidence and stability of our industry We therefore hope that for everyone's benefit Argyle will continue to work closely with the CSO "

One London diamond merchant welcomed the split "It gives the industry an additional healthy source at steady market prices," he said

Argyle to quit CSO after 10 years

(Be) 10/6/96 (216)

By Lachlan Colquhoun

Sydney — Having made peace with the Russians, De Beers' Central Selling Organisation (CSO) now finds itself at war with the Australians

Australia's Argyle Diamond Mine, which produces one-third of world production by volume, but only 7 percent by value, decided last Friday to leave the CSO after 10 years From the end of the month it will market its $A470 million (about R13,7 billion) annual production through an office in Antwerp

Argyle, which is 56 percent owned by RTZ-CRA, accounts for 6 percent of CSO's sales

Last year's price realignment hurt Argyle by lowering prices at the bottom as they were raised at the top The policy of stockpiling saw $A130 million in Argyle stones kept off the market

With the CSO unwilling to take more risk for a falling market, a conflict of interest became inevitable

On Friday, Andrew Cumine, a De Beers spokesman, said the move "was not a great tragedy" He said only 2 percent of Argyle's output was high quality gems

The CSO's troubles could continue, however

The Russians have only five years of their contract left, and they and the Canadian producers will be watching Argyle's breakaway very closely — Independent Foreign Service

☐ See Page 14

to gold shares. Gold is often used as a hedge against inflation

The industrial index came off a more than 50-point intraday rise to close 39 points lower at 7998,3

Analysts said heavy gains in indus-

The yield reflected on the back of the world benchmark 30-year US treasury bond, which took a beating on the employment news and the resultant fears of inflation

Inflation fears typically worry bond

market shortage typically signals net capital outflows from the banking system for the day The shortage was at R7,705 billion on Wednesday Friday and Saturday's fig

ET(BR) 10/6/96 (21b)

Union and De Beers hit stalemate

By James Lamont

INDUSTRIAL EDITOR

Johannesburg — Wage negotiations between the National Union of Mineworkers and De Beers reached a stalemate last week

On Friday, the union declared the talks deadlocked, De Beers said

The company said the union intended to breach the provisions of the recognition agreement between the two parties

The union's declaration follows three meetings with the company since the beginning of last month It is now doubtful whether a meeting between the two parties scheduled for Friday will take place

During this year's round of bargaining, the union had revised its wage demand from 20 to 19 percent but had rejected all the company's other proposals, De Beers said

The company is offering an increase of between 2 and 8 percent dependent on an assessment of individual performance

De Beers has proposed an agreement on the education of the workforce and the treatment and continued employment of HIV-positive employees and Aids sufferers It has also agreed to the appointment of full-time safety representatives

The union's demands include recognition of it as the collective bargaining agent of all employees below management level, a stipulation that all employees who are not members of a trade union pay 1 percent of their salary into an agency shop fund in place of union fees and a demand that the company pay the costs of primary, secondary and tertiary education for employees and their dependants

The union is also seeking additional annual, compassionate and sports leave and an initial R100 000 donation from the De Beers Chairman's Fund to each of the union's seven branches to "empower members and stewards through union education and training"

In its negotiations with the Chamber of Mines and mining houses, the union is seeking to reduce the gap between the wages of skilled and unskilled workers while pushing for above-inflation raises for those who get the smallest increases

ODM extends its diamond concessions off Namibia

BD 12/6/96 (216)

Samantha Sharpe

CAPE TOWN — Marine diamond group Ocean Diamond Mining (ODM) had secured extensive new prospecting concessions off the Namibian coast, increasing its mining and prospecting rights by more than 15 times, it said yesterday.

ODM financial director Jo Consul said he welcomed the Namibian government's decision to extend the grants. They had been applied for originally in 1966, but were subject to decades of territorial wrangling.

He said the group's Namibian mining rights would be extended to cover prospecting in the seaward extensions, up to the 200m depth line, of nine islands to the north and south of Luderitz — a 5 700km² area.

It was too early to forecast potential yields from the area, but the group expected the concessions would ensure delivery of further profitable returns. Exploration will start towards the end of the month.

"ODM still has to find the diamonds and delineate reserves that are recoverable, although the increased prospecting area means there is greater potential for finding something of real significance," he said.

He said it was unlikely ODM would seek a partnership with other operators in the region, but this could not be ruled out.

Company may look at 'one or two' more prospecting ships

Ocean granted further rights

CT (BR) 12/6/96 (216)

By Marc Hasenfuss

CAPE EDITOR

Cape Town — The Namibian government has granted Ocean Diamond Mining Holdings extensive new marine prospecting rights, a move which gives the company a foothold in some of the most lucrative sea diamond areas off Luderitz

Jo Consul, the company's financial director, said that the grant, effective from yesterday, ranked as the most important recent development for the company "It's the best possible thing that could happen to us When reserves are proven we could be looking at at least one or two more mining ships"

The new concessions cover a total area of 5 700km² off the Namibian coast They increase the company's Namibian prospecting and mining rights more than 15 times

The grant was made exclusively to Island Diamonds, a wholly owned subsidiary of the company

The concessions cover nine islands — Hollamsbird, Ichaboe, Long, Possession, Albatros, Pomona, Plumpudding and Sinclair Islands — which are situated north and south of Luderitz

Apart from the 152km Mercury Island extension, the areas allocated by the mines ministry were all as applied for by the company after the re-integration of the islands and Walvis Bay into Namibia

The company's present mining rights are within three nautical miles of the territorial boundaries of the islands, where production contributed the bulk of its R6,3 million after-tax profit in the year to March 31

Consul said the new grants were of prime geological importance and would provide the company with scope for substantial growth in the long term

"We have a successful track record in the areas surrounding the islands, with total diamond production showing a fourfold increase to 52 310 carats during the past year We are confident that these new concessions will ensure the delivery of further profitable returns," he said

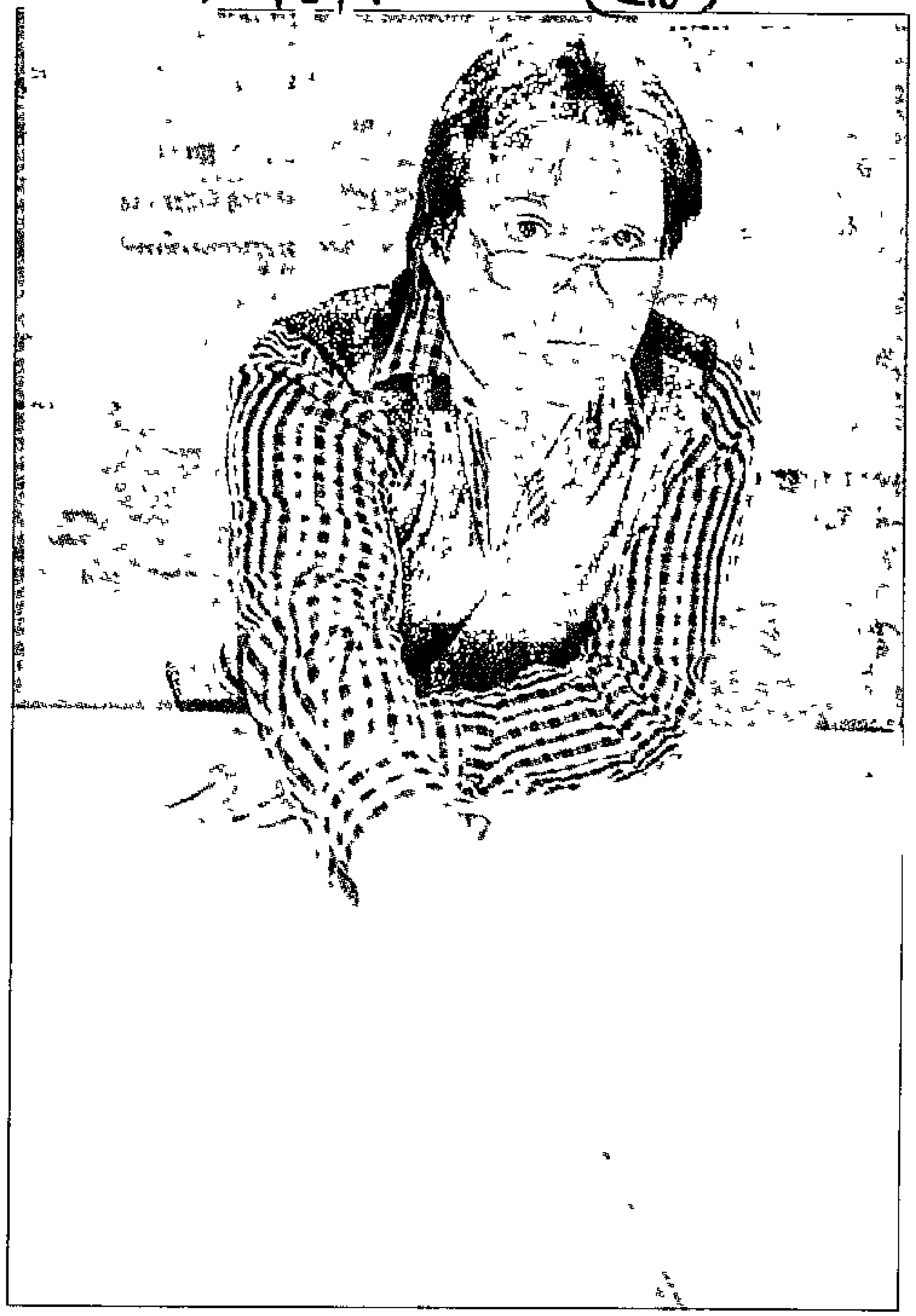
Consul said that the company's extensive geological programmes along the Namibian coast also indicated the tremendous potential of the new concessions

"We are optimistic that the two ancient rivers which drained into this specific area off the coast of Luderitz will yield large quantities of gems," Consul said

He said that the company had made significant progress into research and technology during the past four years and has proven expertise in marine mining

"Because of the specialised nature of marine mining, we have invested in our own geological and geophysical interpretation models

"Our technology is world class and ensures that marine diamond mining is a science rather than a guessing game," Consul said



RIVERS OF GEMS *Jo Consul, Ocean's financial director, surveys the company's new Namibian grant* PHOTO ANDREW BROWN

OCEAN DIAMOND MINING

(216)

MOVING INTO THE BIG TIME

FM 14/6/96

The announcement that Ocean Diamond Mining (ODM) has secured rights to another 5 700 km² marine prospecting rights off the Namibian coast puts a different complexion on its prospects

To some extent this is already discounted in the market because the negotiations were already in the public domain However, the extent of the award could easily catapult ODM into the front rank of marine diamond producers

ODM is a relatively small diamond company (market cap only R180m) which has struggled for years to carve out a strong position This changed last year when its newly commissioned ocean-going mining vessel, converted in Cape Town from an oil rig supply ship, was put to work with a revised method for extrapolating geological indications The result was a huge increase in turnover and profitability (*Fox* June 7)

ODM's mining lease has been concentrated in the territorial waters surrounding 12 islands near Luderitz The latest award increases the area fifteenfold

Financial director Jo Consul says the new area is "in the middle of one of the world's richest diamond sectors It will make a very big difference to our potential"

Until this week, ODM intended to introduce a second mining vessel to take effect only late in the 1998 financial year Consul now expects that timetable to be advanced substantially Nor does he discount the possibility that three or even four more vessels may be pressed into action at a rapid rate — since each will cost about R30m to convert and equip, financing expenditure on this scale may make a rights issue inevitable

But this shouldn't deter investors Sanlam holds 9% of the equity directly and has rights through pref shares to lift its stake to 20% The price has already moved appreciably in a week and the share is clearly considered an improving diamond sector play *David Gleason*

De Beers, NUM avert wage dispute

(216) BD 18/6/96

Renee Grawitzky

CAPE TOWN — A meeting between De Beers and National Union of Mineworkers (NUM) representatives on Friday brought the parties back from the brink of a dispute and negotiations would continue later this week, spokesmen said yesterday

Talks between the union and the Chamber of Mines would begin officially this week after a pre-negotiations meeting was held on the same day

Although the diamond industry negotiations covering 5 000 workers now appear to be on track, conflict could arise over the move by De Beers to negotiate merit increases at all its mines

De Beers industrial relations consultant Shane Leisagang said yesterday the company had increased its offer from 2% plus 2% on merit to a guaranteed 4% on basic wages plus a merit increase equivalent to 3% of the total wage bill This allocation would allow workers to get up to an additional 6% on their wages

Union spokesman Judith Weymont said the company wanted to move towards a system where all increases were based on merit and where the company allocated a percentage of the wage bill to merit increases. While the union was prepared to discuss this, differences could arise over the definition of merit and who determined merit increases

Leisagang said basic wages should be made up of three elements — a competitive rate, team awards for cost containment and production targets and rewarding individuals for their input into efficiency and productivity

He said merit increases had been implemented at Venetia and the intention was to extend this to other mines through negotiations

The union said it had revised its demand from 20% to 17% The parties had agreed to set up four working groups to look into health and safety and retrenchments and a social plan.

Meanwhile, our correspondent reports there was hope for a settlement in the wage dispute between the metal industry's employers and its biggest union, a National Union of Metalworkers negotiator said yesterday

Union engineering sector negotiator Elias Monage said he thought progress was being made in talks with the Steel & Engineering Industries' Federation of SA, which is representing the employers "As a union, we are willing and prepared to negotiate."

Monage's optimism came despite the union's rejection this week of the federation's "final" offer of a 7,5% wage increase It is demanding a 20% wage hike to close the wage gap caused by apartheid, although Monage said the union would be "flexible".

Monage, however, would not rule out the possibility of a prolonged strike should the employers not increase their offer during negotiations on June 24 "Our members will decide where we go after June 24 It depends entirely on the employers' offer," he said.

De Beers heads for record gem sales

(216) BD 20/6/96

David McKay

DIAMOND sales by De Beers' Central Selling Organisation for the first half of the year jumped 8,2% on the same period last year to $2,7bn, outstripping expectations and setting the group on the road to record full-year sales.

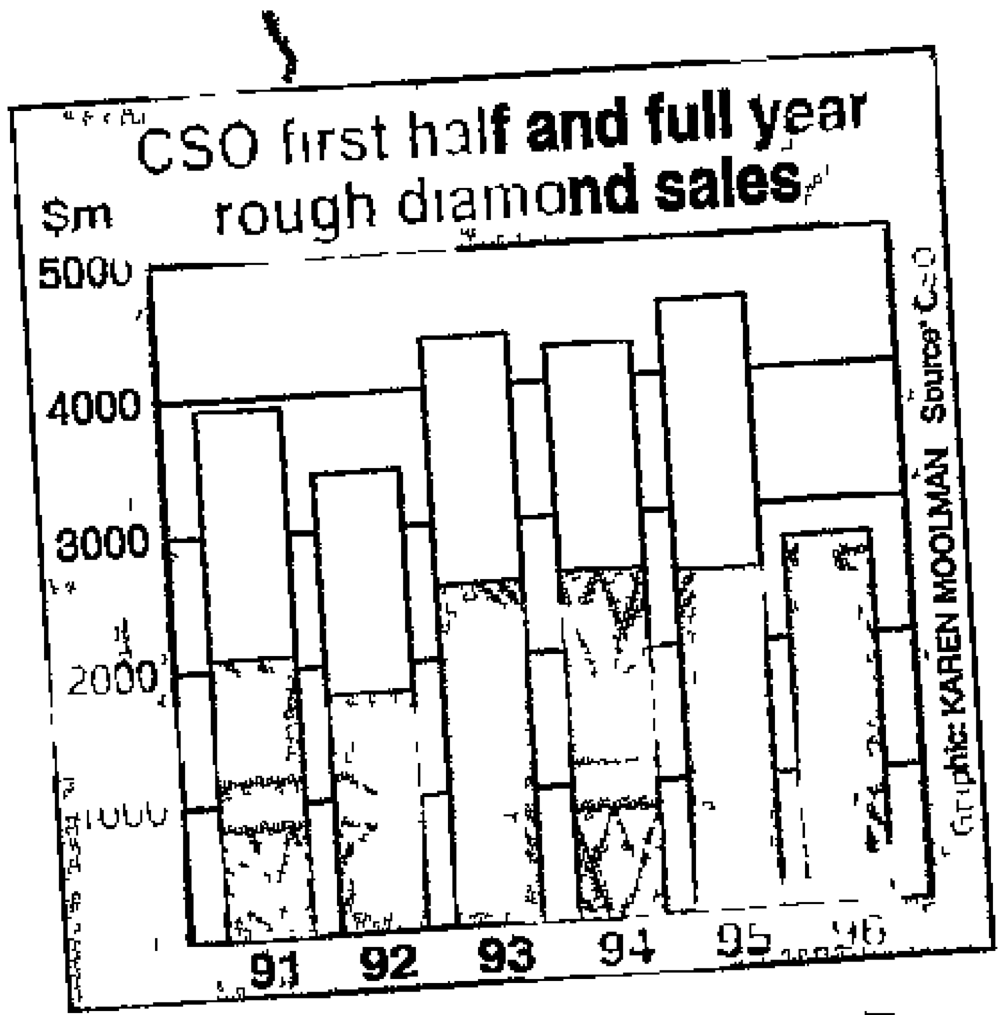
The sales, underpinned by rising retail demand, particularly in the jewellery market, raised the prospect of the CSO lifting the quota on suppliers for the first time in two years.

Analysts said the CSO was on course for full-year sales of about $4,9bn, against last year's $4,5bn.

The results proved that De Beers had gained full control of the market, G O'Flaherty analyst Des Mayer said.

De Beers closed 375c ahead at R141 on the JSE yesterday following the release of the figures in London.

The figures, which translated to a 20% gain in rand terms to R10,9bn, showed sales against the second half of last year were ahead 38%. De Beers said the first half had seen continuing firm demand for larger, better quality rough diamonds above half a carat



Retail sales last year had increased

Continued on Page 2

De Beers

(216) BD 20/6/96

Continued from Page 1

by between 5% to 6% in value — a trend which continued in the first half as growth in the Far East and US economies offset flatter economic growth in Europe

Reuter reports that CSO executive director Tim Capon expected retail demand to remain strong in the second half He said the company was also stepping up marketing activity, particularly in Far Eastern markets

De Beers said the signing of a preliminary agreement with Russia on its marketing contract had "dispelled much of the uncertainty" which had plagued the rough market last year.

But finalising the trade agreement had been delayed by the Russian elections De Beers was confident the agreement would be finalised

The CSO has had a quota of 85% imposed on its suppliers since 1994 — the system is one of its key mechanisms to control gems coming into the market, so underpinning prices

The group again played down the impact of Australian diamond producer Argyle's decision to ditch its marketing contract with the CSO saying it would not have a significant effect on world diamond jewellery sales

De Beers beats expectations with sparkling sales

By Melanie Cheary (216) CT (BR) 20/6/96

Johannesburg — De Beers reported dazzling first-half gemstone sales of $2,748 billion yesterday, beating most analysts' expectations

The value of sales by the South African conglomerate's London-based Central Selling Organisation (CSO) were up 8,2 percent on the same time last year, buoyed by strong demand in important retail jewellery markets

"It's good news in the sense that it does reflect the fact that the diamond industry is basically in a renewed growth phase and De Beers is fully in control of the industry," said Des Mayers, an analyst at stockbrokers G O'Flaherty

Analysts forecast a sales figure range of between $2,5 billion to over $2,7 billion

De Beers shares jumped 300c to R140,25 in afternoon trade as investors reacted positively to the better-than-expected results

Tim Capon, the director of De Beers said that the full-year picture also looked bright because of consumers' renewed appetite for gems

"We are expecting that strong demand for retail jewellery to underpin our results for the year," he said

Analysts said De Beers' fortunes had improved, due to good retail offtake, particularly in Japan and the United States, and because fewer rogue stones were leaking onto the market from Russia

The CSO, founded in the 1930s, handles about 75 percent of world sales of rough stones to diamond cutters

"The increase in sales is due to the Russians no longer selling stones directly onto the market," said an analyst who asked not to be identified

De Beers agreed to a new marketing deal with Russian producer Almazy Rossii Sakha in February.

However, finalising the new agreement has been delayed by the political situation in the run-up to Russia's presidential elections, the company said yesterday

De Beers said it would continue to work with Russia on the co-operative basis signalled by the signing of the memorandum of understanding on February 23 while talks proceeded — Reuter

Move a blow for Australian producer

CSO cuts its prices on small gems

(216)

BD 4/7/96

David McKay

DE BEERS' Central Selling Organisation (CSO) has lifted larger diamond prices and cut prices for smaller gems — delivering a blow to Australian producer Argyle, which began operating outside the cartel officially on Monday.

The group said yesterday the sustained market premium for larger gems had allowed prices for stones of more than one carat to rise an average 7%, with the price increasing further depending on the size The rises would take effect from Monday

The CSO pinned the rise, the second in eight months, to renewed demand, with confidence boosted by the deal it cut earlier this year to keep quality gem producer Russia in cartel ranks

Overall rough gem prices rose an average 3%, indicating a cut in smaller gem prices. A spokesman said the cuts were dictated by a surplus of smaller gems, produced mainly by Argyle.

He denied that the cut — which followed a 10% cut in smaller gem prices last year — signalled a price war with Argyle. "Absolutely not — this is a function of demand. There is a surfeit of small diamonds on the market "

Our London correspondent reports that Antwerp dealers said the CSO had been selling large quantities of Argyle gems it had stockpiled in recent years, prompting prices to slide A stockpile of smaller gems equivalent to a year of Argyle's production (40-million carats) was hanging over the market

The CSO's overall price increase followed a strong first-half performance in which sales rose 8,2% to $2,7bn amid a recovery in retail demand Prices on gems of two carats or more rose an average of 5% in November.

Stockbroker G O'Flaherty analyst Des Mayers said the price increases underlined De Beers' renewed mastery of the world diamond market

De Beers' JSE share price weakened R2 yesterday following the pricing announcement, but it made up the loss to close unchanged at R147,50.

Argyle said last month it would ditch its CSO marketing contract as it could earn more by selling its gems outside the cartel Its contract expired at the weekend and it is now selling from its Antwerp offices. The mine, a joint venture between RTZ-CRA, Ashton Mining and Western Australian Diamond Trust, is the world's largest, but its output is low quality It accounted for less than 6% of the CSO's $4,5bn sales last year It was incensed by the CSO's cut in small gem prices last year.

The Antwerp dealers said Argyle was marketing its diamonds aggressively in Antwerp and Bombay. It also had a contract in China and was selling in Pacific Rim countries.

Argyle declined to comment

De Beers increases diamond prices

(216) CT(82) 4/7/96

By Jonathan Rosenthal

Johannesburg — Strong demand for larger, rough gem diamonds has prompted De Beers' Central Selling Organisation (CSO) to increase its overall prices by about 3 percent from next Monday, the company said yesterday

The price increases on rough gem diamonds larger than one carat will average 7 percent with prices increasing progressively with size

The average increase of 3 percent indicates that prices on smaller diamonds will drop to offset the 7 percent increase on larger gem-quality stones, said a London-based market analyst who declined to be named

Tom Tweedy, a company spokesman, said the increases were demand driven because larger stones were already selling at a premium on the markets

Retail markets in Southeast Asia, the United States and Japan remained strong, with the US demand for women's diamond jewellery having grown by 10 percent last year

The analyst said supplies of larger stones outside the CSO were drying up and confidence in the CSO was increasing after its record sales earlier this year, despite oversupply at the bottom end of the market

He said the move was "not unexpected after the breakup with the Australian mine Argyle"

It was, however, likely to hurt the Australian producer, which produces mainly smaller stones for supply to Indian diamond cutters

Tweedy denied that the CSO was entering into a price war with Argyle, which chose not to renew its marketing contact with the organisation when it expired last month

Argyle had said it would save about A$40 million (about R52 million) in fees to the CSO and that it hoped to lift sales to A$500 million for this financial year

"It is everything but a price war because we produce smalls ourselves and have purchasing contracts with people who produce smalls This was not driven by a short-term strategy because it would be unsustainable," Tweedy said

Last November's price increases averaged 5 percent for gems larger than two carats In June last year prices were dropped for smaller stones, but were increased on the larger, better quality stones

Trans Hex sets sights on quality gems

(216) M+G (Bm) 5-11/7/96

The West Coast diamond group is following De Beers' lead in targeting higher-priced stones, writes **Lynda Loxton**

WEST COAST diamond companies have had mixed fortunes in recent years, not least because of the dumping of low-quality diamonds on the world market by Russia.

The agreement reached by De Beers' Central Selling Organisation (CSO) and Russia in February has since stabilised the situation, but some of the smaller producers are now setting their caps at the higher value end of the market to avoid future problems, while strengthening alternative selling techniques

This week the Trans Hex Group said it aimed to increase annual diamond production to one million carats or $250-million a year within five years.

The focus would be on "alluvial and shallow marine operations, but opportunities to develop kimberlites and open-pittable gold deposits will be considered".

It would concentrate on diamond projects that could produce "diamonds in the higher price per carat range — preferably in excess of $200 per carat".

This was the first time the group quantified production targets and analysts said it indicated that Trans Hex was following the lead of De Beers in concentrating on higher priced quality gems.

In 1994 and 1995, the world market was swamped by poorer quality diamonds "The shortage of true gem diamonds persists and the expected synchronised growth in the developed world in the second half of 1996 for the first time in years means there will be a persistent disequilibrium to the end of the century," said an analyst.

Rough diamond: De Beers and Trans Hex will focus on higher priced quality gems

Trans Hex has set up a foreign arm, Trans Hex International Limited, in Canada to finance its non-South African exploration projects It will be funded through the private placement of between Can$20-million and Can$24-million, with Trans Hex holding between 53% and 59% of the issued shares.

It aims to bring "at least one of the existing exploration projects to a feasibility study stage within the next 12 to 15 months", Trans Hex said.

The exploration projects are in the Central African Republic, Zimbabwe, Namibia, Brazil, Canada, Zaire and Angola. Trans Hex said it spent R26,8-million on the projects in the year to March 31 1996 and would spend R20,6-million this financial year.

Given the volatility of diamond prices, Trans Hex has introduced a tender-based marketing system, which it said was "serving the group well", enabling it to sell even low-quality diamonds at "satisfactory" prices

It said the system was "put to its sternest test in the latter part of 1995 when the group had to sell low-quality productions from Swaziland and Zimbabwe in a market where Indian goods were dead in the water

"A greater number of tenderers than usual were invited and, in the event, a full complement of bids with most satisfactory winning prices were received. At the other extreme, during the virtual frenzy earlier this year for good quality sizes ... the biggest marketing problem was to limit the participation of South African tenders to a manageable number."

The group said that if buoyant gem prices continued and the rand remained weak against the dollar, improved income and earnings per share could be expected in 1997/98.

● The CSO announced an increase in prices this week, with rough gem diamonds up an average 3%. Stones above one carat would cost 7% more, rising progressively according to size

Showdown over diamonds

(216)

MtG (PM) 5-11/7/96

Dan Atkinson in London

A $4,5-BILLION poker game between diamond trader De Beers and the world's biggest diamond mine, Argyle, will come to a head during the next seven months.

Argyle of Australia — part-owned by Britain's RTZ mining conglomerate — walked out of De Beers' marketing cartel this month, a move some saw as the beginning of the end of De Beers' control of the $4,5-billion international diamond market.

Argyle is gambling that demand for its own high-volume, low-value stones will pick up, particularly in emerging markets such as India, China and the former Soviet Union.

It has just seven months before it has to decide whether or not to ask investors for $1-billion or more to transform its open-cast operations into an underground drilling operation. Should its break-out from De Beers' Central Selling Organisation (CSO) lead to further depression in the price of low-grade diamonds, Argyle may be forced to return to the fold.

But success for Argyle's go-it-alone strategy would clearly influence other big players to leave the CSO. In particular, BHP, the Australian multinational, is a key factor in the game.

It has won permission from the Canadian environmental authorities to begin diamond operations in the Northwest Territories, which will require an investment of Can$1,2-billion.

These operations are unlikely to bear fruit before 2000, by which time success for Argyle may tempt BHP not to market its stones through the CSO but to join Argyle in selling its stones on the open market.

The parting between Argyle and De Beers was triggered by the CSO's decision, in view of changing social patterns and growing inequality in the industrial world, to re-weight its pricing strategy, increasing the price of more expensive stones while lowering that of cheaper "Indian goods".

Argyle, despite its record output, produced just 6% of CSO sales by value; half its stones are used for industrial purposes, the other half feature mainly in cheap types of jewellery.

On the surface, the CSO was unruffled when Argyle walked out. But it is thought De Beers believes its absence from the cartel sets an unfortunate precedent; it has seen defections before and is keen for Argyle to return to the CSO.

CSO might put up diamond prices again this year

(246) BD 8/7/96

DE BEERS' Central Selling Organisation (CSO) could raise world diamond prices again this year because of an end to direct Russian sales and expected growth in Western nations' economies, an analyst said at the weekend

BoE NatWest Securities diamond analyst Barry Sergeant predicted that the next price increase could average between 3% and 5%

Because of the renewed marketing deal agreed between Russia and the CSO earlier this year, he said Russian "leakages" on to the world market beyond set quotas had stopped

As a result, world production of gem diamonds, including stockpiles, was expected to fall to 98,8-million carats this year compared with 118,3-million carats last year

The CSO announced last week that the price of diamonds of more than a carat had increased 7% with prices increasing progressively according to size

It said the average price increase for all diamonds would be 3%, implying price cuts for smaller diamonds, which had flooded the market

G O'Flaherty analyst Des Mayers was optimistic about prospects for the industry, but would not be drawn on whether there would be another price increase this year

Mayers said that although there were signs of synchronised growth in the world economy, this was just beginning, and real growth would take time to start showing through in terms of significantly higher gem sales Demand for better quality stones was already very good, he said —Reuter

Ocean Diamond on target to produce 55 000 carats

(216) CT (BR) 23/7/96

By Marc Hasenfuss
CAPE EDITOR

Cape Town — Ocean Diamond Mining Holdings said it was still on target to produce 55 000 carats this financial year, despite losing valuable time when its mining vessel, the Namibian Gem, was dry-docked for a fortnight last month

Burger Greese, the offshore diamond mining company's ore reserve manager, said 15 149 carats were produced in the three months to June 30, which was in line with the projected production figure for the year to March 31 next year

Total production was helped by a good supply of stones from the sampling programme from another ship, the Oceandia.

"Although the bulk of this production came from the Namibian Gem, the Oceandia's ore reserve sampling also made a significant contribution to the total production last quarter," Greese said.

The Namibian Gem was dry-docked for two weeks last month to install a new X-ray machine, which should improve the efficiency of the gem sorting process on board

Other repair work and maintenance — including "jelly fish proofing" the vessels' cooling system — was also undertaken, extending the Namibian Gem's next dry-docking date by about two and a half years

Greese said the ore reserve development sampling programme by the Oceandia had been successful and delineated, mineable reserves had increased substantially over the past quarter

He estimated it would take more than three years to deplete these reserves at the present production rate

"It is also anticipated that the ore development sampling programme will continue to add mineable reserves at a faster rate than the present capacity of mine production."

The company, which produced more than 50 000 carats last year, was recently granted prospecting rights in the Namibian Island Extension areas — which could warrant the commissioning of a third mining vessel in the 1998 financial year.

MINING – DIAMOND

1996 – 1997

Mining old ore

(216) ST (BR) 2/8/96

Terry Bell

Raymond Pomario is a mine owner, a partner in the Dancarl diamond mine in Barkly West To the National Union of Mineworkers, he is the epitome of the old apartheid order, which regarded labour relations in the uncompromising, almost feudal, terms of master and servant That is why the union is about to launch an action against Dancarl for a series of claims on behalf of the mine's employees

According to the local union organiser and the mine's 400 miners, who are all migrants from Mozambique, Dancarl entered the new South Africa by cutting miners' wages from R40 a day to R10 There are also claims that the miners' paltry earnings were held in interest-free trust by the mine management and their working conditions do not measure up to legal minimum standards

It is a tale which fits well with the legion of horror stories of the apartheid era, a classic example that the mental and material baggage of our brutal past is still very much with us And Pomario has done nothing to dispel this impression He flippantly dismissed queries about the mine and the miners, saying only "The best thing to say is that there is no comment about anything"

According to union organisers working with miners on small, privately owned mines, Pomario's attitude is far from unusual This attitude is also found among many white supervisory staff on larger mines, though it is not usually so blatant

"The legacy of apartheid is still with us," said Gwede Mantashe, the union's assistant general secretary There was much evidence of the truth of his statement recently, when a violent "ethnic" clash between groups of miners at Gold Fields' East Driefontein mine left 11 miners dead

East Driefontein persists with the practice of ethnically segregated accommodation Anglo American, the country's largest mining group, dispensed with this more than 20 years ago following a series of violent clashes on several of its mines

"We believe the change has been largely successful," Lauren Wilson, Anglo's communications officer, said It helped to reduce ethnic tension and also made for less disruption in teamwork It also assisted with the spread of trade unionism, though this was obviously not the management's intention

Gold Fields has said that its "primary objective in the manpower field has for many years been the elimination of discrimination" It has also said, however, that the ethnically segregated accommodation at some of its operations is a reflection "of the expressed preference of employees"

"If they are so concerned about the freedom of choice of their employees they should apply it to the rest of their working and living They should involve workers in real choices in terms of accommodation and working patterns," said Judith Weymont, the union's media officer She and Mantashe think the Gold Fields attitude is essentially "a hangover from apartheid"

The retention of segregated accommodation certainly influences how Gold Fields is perceived by the union and the wider trade union movement

Unions regard the mining house as the bastion of conservatism, capable of retaining even the outmoded and racially biased heat torture, even though it dropped it three years ago Heat torture is what miners call the system of heat acclimatisation once used on most mines It involves forcing recruits to spend two weeks in a heat chamber, rhythmically stepping on and off blocks placed on the floor

In 1991, the new Minerals Act removed the racial dimension from acclimatisation training In practice, however, this made no difference because only black miners fell into the unscheduled, or manual, category After 1993, heat torture was fairly rapidly replaced on almost all mines by a scientifically developed system of on-the-job heat stress management Gold Fields produced comprehensive explanations of the new system and introduced it on its mines

However, bitter memories of the acclimatisation chamber persist and tend to be awakened when evidence of other practices of the past presents itself "But at least the big companies talk," a union organiser said "Companies like Dancarl have not even got over that hurdle yet"

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OCEAN DIAMOND MINING (216)

BECOMING COLLECTABLE

FM 9/8/96

Ocean Diamond Mining (ODM) has managed an important transition, moving from exploration to fully fledged (though small) mining status, virtually alone and certainly without the power of an established mining house

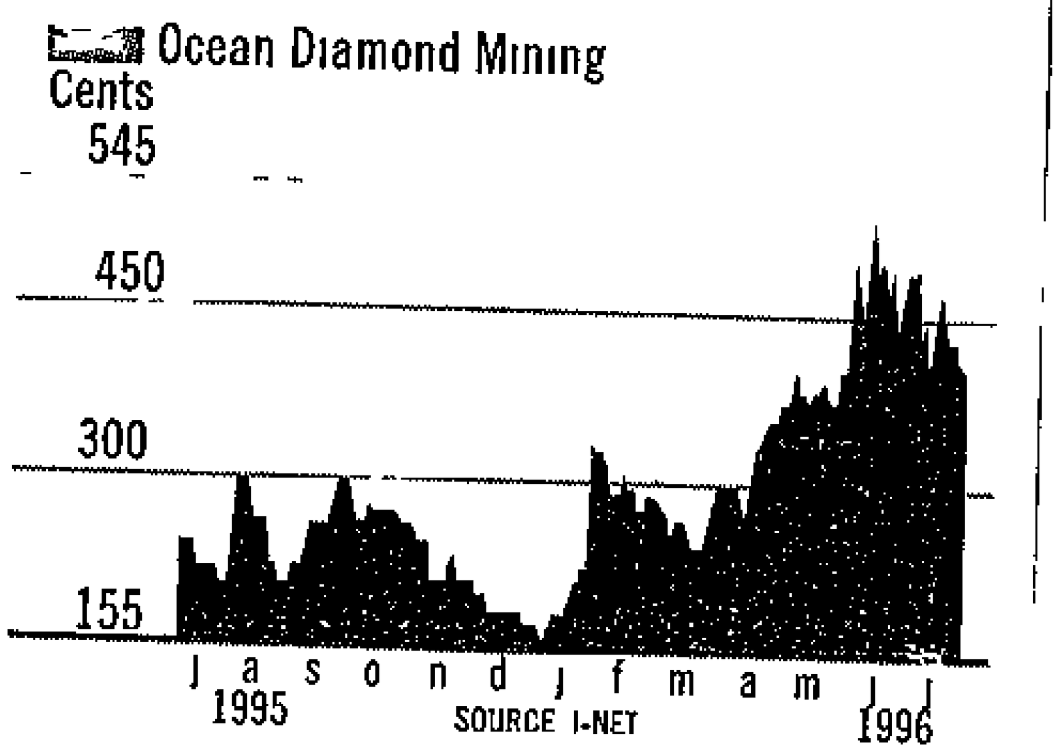
- **ACTIVITIES.** *Marine diamond recovery and ocean floor exploration*
- **CONTROL.** *Ellerman Holdings 15%, Sanlam 11%*
- **CHAIRMAN** *I R M Prinsep MD A C Louw*
- **CAPITAL STRUCTURE.** *36,5m ords Market capitalisation R146m*
- **SHARE MARKET.** *Price 400c Yields 4,0% on earnings, p e ratio, 25,0, cover, n/a 12-month high, 530c, low, 170c Trading volume last quarter, 2,8m shares*

Year to March 31	'93	'94	'95	'96
Carats mined	n/a	11 626	14 298	52 310
Turnover (Rm)	10,6	10,6	11,3	38,1
Profit/Loss (Rm)	(0,02)	2,6	0,1	5,8
Cap employed (Rm)	12,9	17,1	80,9	86,8
Earnings (c)	(0,11)	11,61	0,4	16,0

All this good news, reflected in a strong balance sheet, comes from its powerful marine mining performance, with a quadrupling in carats recovered to 52 310 ct (1995 14 289 ct) This year, MD Andre Louw's target is about 55 000 ct (though analysts expect 60 000 ct) followed by 110 000 ct in financial 1998 Production at these levels would drive the company into an even more favourable position

On top of this is the June award by the Namibian government of an exclusive prospecting permit over 5 700 km² of sea diamond areas around 12 islands near Luderitz They are clearly potentially rich in high quality alluvial diamonds

The new concession puts a different face on prospects Louw says the first task is to delineate quickly an ore reserve



in the new area — bulk sampling is well advanced and he's crowing about the successes achieved in operating at water depths of 130 m ODM now operates at an average 65 m-70 m "This shows," says Louw, "that we have the technological ability to operate at much greater depths" and it's an important factor

Proving adequate new reserves should take 12-18 months Before then, Louw's team will start preparations for buying and refitting a new mining vessel

The last one, previously an oil rig supply vessel used in the North Sea, cost R33m The next will incorporate the latest technology and probably cost R40m-R50m — to be financed internally

If there is any cause for reservation about ODM, it's that it hasn't — until recently — put sufficient effort into investor relations This is important for a small company rapidly breaking into the big time and reliant on access to international capital to fund development

That aside, the prevailing view among analysts is favourable "It isn't cheap and I wouldn't chase the stock," says one, "but prospects are obviously very good "

All things considered, it's a counter which now deserves to be added to the list of collectable items *David Gleason*

Record diamond sales help boost De Beers' earnings

(216)

David McKay

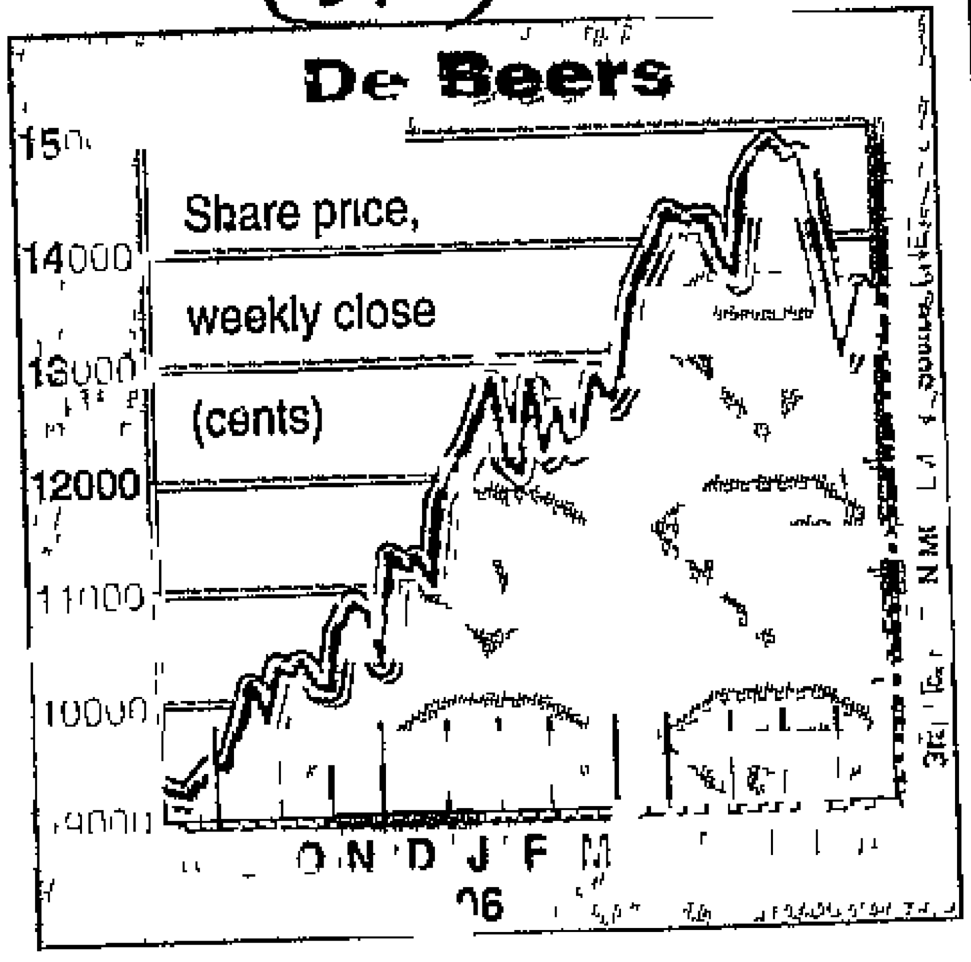
RECORD diamond sales and a solid contribution from investments helped lift De Beers' combined attributable earnings 18% to $482m in the six months to June, the diamond group said yesterday

The group's London-based marketing arm, the Central Selling Organisation (CSO), said in June that it had achieved record sales of $2,75bn in the first half against a background of strong demand for larger gems

This performance was helped by an increase in Anglo American's final dividend, which was a major contribution to the 14% increase in overall investment income of $166m.

De Beers' Consolidated Mines, the group's SA arm, lifted turnover to R2,69bn (1995: R2,24bn) Its diamond account increased to R723m (R701m) and earnings, including a R538m income from investment (R424m), were higher at R1,03bn (R835m). Its interim dividend was lifted to 67c a share against 53c a share last year

In contrast, the dollar-denominated turnover for offshore arm De Beers Centenary rose to $2,92bn ($2,78bn) Its diamond account contribution was $271m ($244m), leading to a higher after-tax income of $231m ($182m)



Centenary's earnings a depositary receipt before extraordinary items increased to $0,58c ($0,44c), including retained earnings of associates The interim dividend was marginally higher at $0,115c, ($0,110c)

Chairman Julian Ogilvie Thompson said yesterday the group had been disappointed by the decision of Australian producer Argyle, which contributed 6% of its rough diamond intake, to leave the CSO's single-marketing channel

BD 14/8/96 Continued on Page 2

De Beers

(216)

Continued from Page 1

BD 14/8/96

The resulting "confidence crisis" in the Indian cutting industry, concerned about the possible gem surplus from De Beers and Argyle, would be managed by the group, he said There would be no price war between the syndicate and Argyle, but the Australians should expect to compete.

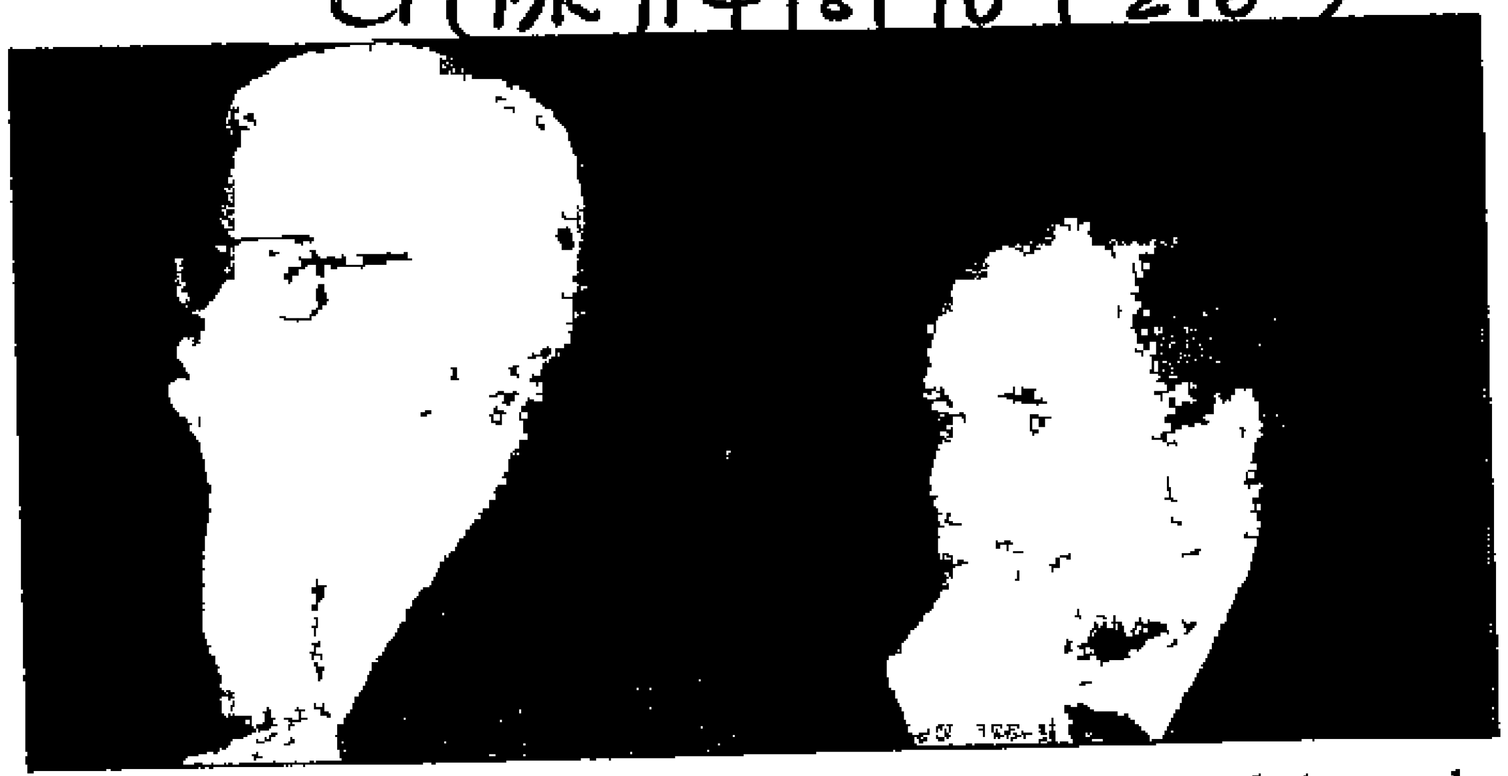
He said the group was confident it would sign a marketing agreement with the Russian federation, agreed in principle earlier this year

He conceded that there had been an increase in the amount of quality stones and technical material leaking from Russian sources during June and July, but attributed it to foreign joint ventures working with producers, not government sources

De Beers results confound pundits

CT(BR) 14/8/96 (216)

By Jabulani Sikhakhane
BUSINESS EDITOR



DELIGHTED *Julian Ogilvie Thompson and Nicky Oppenheimer, who helped De Beers beat analysts' forecasts* PHOTO SELWYN TAIT

Johannesburg — De Beers has beaten analysts forecasts by posting attributable earnings that increased by 32 percent in rand terms for the six months to June 30

Attributable earnings for the combined figures of De Beers Consolidated Mines and De Beers Centenary, whose shares trade as one linked unit, rose 18 percent in dollar terms, up 32 percent in rand figures, to $482 million (R1,9 billion) from $407 million (R1,46 billion) in the comparable period last year.

The dividend from De Beers Consolidated (its South African operations) rose to 67c from 53c The distribution from Centenary, which holds all the offshore operations, was higher at $0,115 from $0,11

The rand amount of the Centenary dividend for local shareholders will be fixed on September 16.

Julian Ogilvie Thompson, the chairman of De Beers, said yesterday that demand for diamond jewellery showed good growth in local currencies

Diamond jewellery sales were up 6 percent in the US and 15 percent in Britain for the first six months of the year

"For the whole year we expect diamond jewellery retail sales to rise 5 to10 percent in local currency terms," Ogilvie Thompson said He said the growth rate might be different in dollar terms, depending on the dollar's performance against other currencies.

The highlight of the period was the signing of the memorandum of understanding between Russia and De Beers Centenary in February The parties have not sealed the trade agreement because of delays caused by the Russian presidential elections

Argyle, the Australian diamond producer, did not renew its marketing contract with the Central Selling Organisation (CSO), De Beers' marketing arm De Beers said the resulting change in the supply situation unsettled the Indian cutting industry, which had expected the contract to be renewed De Beers said the CSO would help its clients adjust to the new situation

☐ See Business Watch, Page 23

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GREAT EXPECTATIONS: John Brownrigg, managing director of JCI's gold division, is optimistic

(216) ST([illegible]) 18/8/96

De Beers fields the fallout

specify

GLOBAL control over the diamond industry brings with it international headaches.

De Beers is being taxed in Russia on the trade agreement with Almazy Rossii Sakha which was interrupted by presidential elections and politicking Australian producer Argyle declined to renew its agreement with the Central Selling Organisation, upsetting many Indian diamond dealers who now have to be placated by De Beers

At least rogue Angolan production is not the thorn it once was The CSO estimates it bought two thirds of Angola's estimated $700-million of production last year and expects a similar pattern this year Many of Angola's alluvial stones are of gem size and quality 2 carats and upwards — a type in particular demand because of overall scarcity

The CSO increased the price of gems of a carat and more by 7% in July and prices overall by an average of 3% De Beers deputy chairman Nicky Oppenheimer says there is no question of a price war with Argyle. "But the majority of Argyle's production is at the low-quality end and I'm afraid it would be silly of us to protect this market or allow Argyle to sell into it ahead of us " Argyle's production made up 6% of CSO sales by value

De Beers director Gary Ralfe says not all Indian business was affected by the Argyle rupture About 30% of CSO sights go to India Ralfe says he was called to Moscow two weeks ago as there seemed to be renewed interest by the Russians in a signed diamond agreement, probably because Moscow mandated NatWest Securities to raise $500-million on international capital markets This task could be made easier if Moscow signs with the CSO and is seen to be sticking to the agreement

In the six months to June, De Beers lifted attributable earnings by 18% to US$482-million and by 32% in rands to R1,92-billion The rand dividend was increased by 26% to 117c a linked unit De Beers shares fell on the results to R130,50

(216)

CT(BR) 21/8/96

DIAMOND SALES

Snakes and predators in the valley

Jabulani Sikhakhane

BUSINESS EDITOR

Legend has it that there was once an inaccessible valley in central Asia carpeted with diamonds, patrolled by birds of prey and guarded by snakes of murderous gaze

If that legend were to be refined and applied to the diamond business today, the valley would be De Beers group, which over the years has controlled close to 80 percent of the diamond business Its inaccessibility would refer to De Beers' hold over the diamond market for close to seven decades now

Predictions have abounded of an end to De Beers' control of the market through the Central Selling Organisation (CSO) However, the cartel (to its detractors) or a single-channel marketing route (to De Beers) has survived

De Beers' single-channel marketing is facing a challenge from Argyle, the Australian diamond mine that has not renewed its marketing contract with the CSO

Argyle, with an annual production of 40 million carats, is the world's single largest producer of diamonds and, in volume terms, accounts for about 40 percent of world output

However, De Beers' Andrew Currie has been quoted as saying that only 2 percent of Argyle's total production is of high quality Contrast this with De Beers' production from its mines in South Africa and the joint venture mines in Botswana and Namibia In volume terms, this accounts for more than 25 percent of total world output Because of a large proportion of high-quality diamonds, De Beers accounts for more than half of world diamond production by value

Argyle's withdrawal from the CSO fold has upset the Indian diamond market India, which is the biggest cutting centre in the world and employs about 700 000 people, specialises in the cutting and polishing low-priced diamonds, of which Argyle is the world's biggest producer

Nicky Oppenheimer, the chairman of the CSO, said last week that the Indians had been expecting Argyle to renew the contract and were shocked by Argyle's decision.

In living memory, only two other countries have broken ranks with the CSO Ghana was the first in the 1960s After 14 years with the

CSO, Zaire followed in May 1981, citing the need to increase government revenue

Argyle, which is 60 percent owned by RTZ-CRA, the world's largest mining group, and Ashton Mining of Australia, advanced the same sort of reasons as Zaire. Andrew Murray, Argyle's corporate services manager, has been quoted as saying Argyle's research indicated it could get a better deal by selling its diamond production through its Antwerp office than under the CSO

Julian Ogilvie Thompson, the chairman of the De Beers group, has described Argyle's decision as "a selfish act"

"They do not want to pay the CSO commission and don't like the quota system But without the CSO there would be no stability The mere fact that more people are interested in prospecting for diamonds is an indication of the CSO's success in stabilising the market," Ogilvie Thompson said last week

The CSO buys diamonds from contractual producers for cash less 10 percent, which covers the costs of sorting diamonds, inventory, market research and advertising

On Zaire's withdrawal from the CSO, Harry Oppenheimer, the then De Beers chairman, had this to say "I think you will find over the period ahead that people who look at the thing carefully may come to the conclusion that the Zaire experience should be looked upon as a warning rather than an example

"The worst thing is the loss of prestige that is involved rather than the actual material, which is about 2 percent of the CSO intake, largely in extremely low-quality diamonds"

Three years later, Zaire rejoined the CSO Interestingly, when Zaire returned, Argyle was just coming on stream Argyle's decision to join the CSO may have influenced Zaire's return.

The CSO offers producers relatively stable prices, although these are adjusted in line with market conditions Outside the CSO, the producer carries the risk of wild fluctuations

It is early days yet to assess whether Argyle's go-it-alone venture will be a success But analysts point out that Argyle could not have chosen a worse time to break away

The market for low-priced diamonds is under pressure Since mid-1995, the CSO has twice cut the price of these stones Argyle's withdrawal from the CSO also comes at a time when the mine has to decide whether to go the expensive underground mining route

Des Mayers, a diamond-industry analyst at G O'Flaherty, a stockbroking firm, says Argyle may find it tough trying to sell its production because of the oversupply of low-priced rough and polished diamonds He says there are bankruptcies in the Indian diamond trade and De Beers is bending over backwards to help its Indian clients

Mayers notes that the diamond business is a two-tier market — demand for medium and larger diamonds is strong and supply is on the short side Demand for low-priced diamonds is weak How long it takes to restore balance in the low-priced diamonds may have an effect on confidence levels in the rest of the market

As De Beers admits in last year's annual report, stability is essential to the diamond industry because price fluctuations will harm public confidence in the value of the gem diamonds

Another uncertainty is the new diamond mine in the Canadian Arctic due to start production in mid-1998 It is not yet clear whether it will sell through the CSO or not The only certainty is that Broken Hill Proprietary, the new mine's owners, will watch Argyle's fortunes with more than passive interest

Whether, as Harry Oppenheimer commented in the 1980s, Argyle's action will be a warning or an example to other diamond producers, only time will tell

De Beers extends Botswana deal

(216) CT (BR) 21/8/96

From AP-Dow Jones

Johannesburg — De Beers signed an accord on Monday with the Botswana government to extend the company's exclusive diamond-selling contract with the world's biggest gem producer until 2001

As part of the deal, all of Debswana Diamond Company's present yearly production of 17 million carats would be sold to the Central Selling Organisation, the De Beers marketing arm based in London

Debswana is jointly owned by the Botswana government and De Beers Centenary, the Swiss-based unit which handles the company's international interests

De Beers said an agreement had been reached "on a sales contract for a further five years" from January this year.

At the same time, De Beers announced a project to more than double the rough diamond output of Debswana's Orapa mine to almost 12 million carats a year by 2000.

The project involves widening the Orapa pit, building a second diamond-treatment facility and upgrading its present structures It will cost more than 1 billion pula (about R1,30 billion)

Argyle denies De Beers claim

(216) BD 27/8/96

MELBOURNE — Argyle Diamonds, which manages the world's largest diamond mine, had not precipitated difficulties in the Indian diamond cutting industry, the company said yesterday.

MD Gordon Gilchrist said he denied suggestions by De Beers' Central Selling Organisation that Argyle had created difficult conditions in the Indian market.

"We believe that the current concerns in India are due to the very large volumes of rough diamonds sold by the CSO," he said. Argyle, which is 60% owned by the RTZ Corp-CRA and 40% by Ashton Mining, split in June from the CSO cartel which controls the majority of the world's diamond market.

"In the second quarter this year, in the lead-up to the expiry of the contract with Argyle, CSO sales into this market were at least 60% above normal levels," Gilchrist said.

"The recent decision by Argyle to sell its production direct to the market rather than through the CSO represents only a change in the distribution channel, not an increase in supply to the market from the Argyle mine," Gilchrist said. — Reuter.

De Beers' scrambles for the wealth of Africa

BD 26/8/96 (216)

Neil Behrmann

LONDON — De Beers' latest deal with Botswana illustrates the company's policy to woo African states, following the problems encountered with the Australians and Russians

A new five year sales contract through De Beers' Central Selling Organisation was signed with Botswana earlier this month, and Debswana, the company controlled by De Beers and the Botswana government, is to spend $288m to double the treatment capacity of Orapa Mine

That expansion will raise Debswana's total production 6-million carats to 23-million in four years time

Prospecting continues in the south and eastern Botswana

De Beers and Endiama, the diamond rich Angolan company, formally signed new prospecting agreements in June this year. De Beers was awarded the exclusive rights to prospect in three areas of Endiama's concessions within Angola. In the north-east of the country and in the provinces Lunda Norte and Lunda Sul, De Beers will be prospecting for kimberlites

In two other areas, Quela and Mavinga, De Beers has been granted the right to prospect for alluvial diamonds as well as kimberlites

The company also has an equal partnership with the Namibian government in Namdeb Diamond Corporation. De Beers Marine has advanced its technology to mine deep-sea offshore areas on behalf of Namdeb. This marine operation already accounts for one third of Namdeb's total production which was maintained at 1,3-million carats of top class diamonds

Prospecting of on-shore Namibian gravel deposits continued in the main mining area along the Orange River There has been bulk sampling of beach deposits north of Chameis Bay. Geological surveys took place in Elizabeth Bay. The offshore geological model has been reviewed and new targets have been located for future sampling

The rehabilitation of the Williamson diamond mine in Tanzania, 75%-owned by De Beers, has been completed and production is being resumed.

Prospective Tanzanian licences covering a large part of a 22 300km² reconnaissance area were granted early this year and allow the numerous kimberlites discovered to be tested

De Beers has been granted exclusive prospecting orders to prospect kimberlites in Zimbabwe's Mwenezi Area Diamond prospecting progressed satisfactorily in eastern Zimbabwe.

A spokesman said De Beers had withdrawn its offshore diamond development vessel from the Sierra-Leone coast, as recent samples indicated there were no viable deposits.

De Beers seeks the sales of new Canadian mines

(216) BD 5/8/96

David McKay

DE BEERS is courting new diamond producers in Canada in a bid to persuade them to market their output through its Central Selling Organisation (CSO)

The Financial Times reports that the group's initial target is Broken Hill Pty, Australia's biggest group. It is expected to start construction soon of Canada's first diamond mine, near Lac de Gras in the Northwest Territories

The mine will come on stream in the second half of 1998 at the earliest. It is expected to produce a relatively high proportion of gem diamonds.

De Beers director George Burne last week said he was not confident at this stage BHP would agree to channel sales through the CSO.

Broken Hill has held exploratory talks with De Beers, but an official said "we are continuing to watch the market and to explore all avenues available to us" A decision on whether to join the CSO will probably be taken about a year before production begins.

The overtures to Canadian producers follow the decision by Australian producer Argyle to begin selling its output outside the CSO

The mine, the world's largest by output, produces low quality diamonds and De Beers reacted swiftly to such competition last month, cutting prices for smaller gems just days after Argyle's marketing operation officially started up.

Burne said the Indian diamond cutting industry — which cuts the sort of stones Argyle produces — had been in "a state of collective nervous breakdown" since Argyle left the CSO.

Prices of such diamonds had fallen up to 20% "if you can find a buyer at all". He estimated the Indian industry had suffered stock losses of $300m to $500m.

But diamond dealers and analysts believe Canadian producers will watch Argyle's Antwerp marketing operation closely Kennecott, a subsidiary of RTZ-CRA which partly owns the Argyle operation, is involved in another promising property close to Broken Hill's Lac de Gras development

Underlining the CSO's efforts to maintain stability in the diamond market, Burne said it had mopped up about $500m of stones pouring out of Angola, where civil war had disrupted marketing arrangements. He estimated Angola's total output was worth $700m.

Burne said: "Diamond prices are naturally erratic, very much influenced by sentiment, and it is only the disciplines of CSO pricing which bring some order to the situation."

Ashton Mining commercial GM Mark Hooper, left, addresses analysts at yesterday's diamond conference in Johannesburg. Pictures: TYRONE ARTHUR

Australian diamond producer to stay a solitaire

BD 4/9/96 (216)

Reinie Booysen

AUSTRALIA's Argyle diamond producer had no intention of marketing its diamonds jointly with Russia or any other large producers, according to Mark Hooper, commercial GM of Ashton Mining, Argyle's parent company.

Hooper told a Johannesburg diamond conference yesterday that his company, which recently left the De Beers diamond marketing monopoly, was concerned about possible US anti-trust implications for parent company RTZ, in a joint-marketing situation.

Asked whether there was any prospect of Argyle renewing a marketing contract with De Beers' Central Selling Organisation, Hooper said: "It's almost impossible to conceive of any circumstances in which we would go back and talk to the CSO."

He said the decision to leave the CSO fold had been taken on the basis of Argyle's assessment of the long-term implications of staying in on the one hand, and marketing Argyle's production directly on the other. De Beers had been unwilling to offer Argyle what it needed. De Beers had pointed out that it might not want a contract with Argyle, depending on the outcome of the CSO's dispute with Russia.

"We didn't walk out halfway through the contract negotiations," said Hooper. "We took our decision after a lot of research and negotiation."

COMPANY NEWS

INSIDE MINING

Adapt and don't worry about the Russians, De Beers told

CT (BE) 5/9/96 (216)

There are two sides to every story, and the opposing points of view to De Beers boomed out loud and clear at this week's diamond industry conference in Johannesburg, organised by JSE broking firm Senekal Mouton & Kitshoff

In a nutshell, key speakers pointed out the fundamentals of the diamond business are changing fast and whether or not the De Beers cartel survives will depend on how well De Beers adapts, rather than worries over specific marketing deals with producers such as the Russians or the Canadians.

"The only people who can screw up the diamond business are De Beers, and they can do it by ignoring the demand side of the equation

"They control the supply side in the form of the rough stones but they cannot control the business in polished stones because it is affected by macroeconomic factors such as interest rate and exchange rate movements that are beyond their influence," said Martin Rapaport

Rapaport is president of Rapaport Corporation, which is a major diamond trading company operating in Israel, the US and Belgium and which publishes the Rapaport Diamond Report

The message from Rapaport is that he believes De Beers has lost touch with the business in recent years He says the spirit of leadership that was apparent in De Beers when Harry Oppenheimer was chairman is no longer there

"I don't know how so many bright people, making such high salaries, could go so nuts," he told the conference, pointing out that the actions taken by De Beers had led to huge disruptions among the diamond dealers, traders and cutters

BRENDAN RYAN

"There is a moral imperative here You have to deal ethically with the people you work with At present the diamond dealers are running around the world trying to make 2 percent profit margins while De Beers makes 15 percent out of their efforts

"If De Beers blows this then De Beers will blow the diamond business People will go running to the Russians and the Angolans to increase the leakages of diamonds They will do what they must to survive

."De Beers used to be a diamond company Now it seems they are just a mining company The only diamond stock worth owning during the past 10 years is De Beers shares because they have outperformed any grade of diamond you care to name

"If De Beers forgets how to be diamond people then let BHP knock them off who cares?"

BHP is developing the Lac de Gras mine in Canada which will come into production in two years' time at a rate of 3m carats/year It is not possible for BHP to "knock off" De Beers but the precedent set by Australia's Argyle mine in breaking from the De Beers marketing system is a dangerous one for the cartel

De Beers' subsequent marketing actions aimed against Argyle, dumping large volumes of low-grade diamonds and cutting prices, indicates the group's level of irritation

Mark Hooper, general manager commercial for Ashton Mining, which is a joint venture partner in the Argyle mine, told the conference Argyle had no choice

He said the decision to split was not a "selfish" one taken for short-term profit motives as alleged by De Beers but was instead a long-term strategy for Argyle's survival

"We got caught in the cross-fire between the Russians and De Beers In real terms the price of Argyle's diamonds fell 28 percent during the last sales contract

"At the start of our contract negotiations De Beers indicated they may not even want to conclude a renewed marketing deal with us if they were unable to resolve the Russian situation.

"Given this, we did what we thought best for our shareholders There is no way we can win a price war with De Beers, and we are not going to try What happens next depends on how long De Beers wants to wield the big stick and punish us. If they want to take a kamikaze approach there's nothing we can do about that," Hooper said

Some delegates at the conference felt De Beers could not afford to let Argyle succeed because this would greatly complicate negotiations to bring BHP into the fold

Watch this space

Snubs mount up but South Africa needs the stones

Shambolic Angola gives De Beers a headache

(216) CT (BE) 18/9/96

From The Economist

Luanda — A monopolist's worst nightmare is not competition, but anarchy So no wonder De Beers, the diamond company controlled by South Africa's Oppenheimer family, which has turned market control into an art form, is fretting about Angola

Torn by wars for more than 30 years, Angola is still the world's fourth-biggest diamond producer by value after Russia, Botswana and South Africa It contains an estimated 11 percent of the world's known reserves

Its diamonds are stunning At an average price of about $140 a carat, with some reaching $350, they are second in quality only to Namibia's, and more than 12 times more valuable than Australia's

Until 1985 De Beers managed the mines and sold the diamonds of Endiama , the nationalised diamond company Then the war grew too brutal Unita's rebels captured the Cuango valley, home to the most sparkling gems, and De Beers quit

It wants to re-enter now that a shaky peace has settled But that is difficult in post-war Angola, where anything can be had for a price but nothing is quite worth the paper it is written on

Two years ago, De Beers thought it had a signed deal with Endiama to prospect for new diamond deposits in the Cuango valley, only to watch Endiama award the prospecting licence to Odebrecht, a Brazilian engineering firm, a year later

The Angolan government said it had never signed the deal Odebrecht is teaming up in the Cuango area with Ashton Mining, an Australian mining company, adding to the snub

Angola is the world's fourth biggest diamond producer by value

Angola is teeming with foreign mining operations of every sort of sophistication There are the garimpeiros, some from Zaire, who dive from wooden canoes into the Cuango river, hold their breath underwater and scrape out alluvial diamonds from the river bed There are South African novices, like Branch Energy, whose sister company, Executive Outcomes, rents its soldiers to African governments at war

Even Almazy Rossii Sakha, a big Russian diamond company, is at it In Luanda, friends of the government, from generals to businessmen, scramble for diamond concessions, which the government is hastily handing out before a Unita representative takes up the post of minister of mines, promised under a 1994 peace deal

Even concessions cannot be guaranteed One South African businessman recently secured a prospecting contract with the government, only to discover too late that the area was under Unita control The local guerrillas locked him up for five days, after which he took the first flight home, vowing never to return

The problems are endless The murder rate in the diamond areas is high, armed private security firms are essential, and Angola is strewn with at least 10 million to 20 million land-mines

De Beers still mines nothing In June it was awarded licences to prospect in three areas, though not the Cuango It has yet to secure permission from Unita merely to fly its aircraft low over one area to do a geophysical survey

It has printed leaflets depicting the De Beers aeroplane, with two peaceful white crosses painted on its underbelly, to discourage suspicious locals from taking pot-shots at its pilots

This is not the first time Angola has eluded De Beers Back in 1992, when the country was briefly at peace and the government deregulated the digging areas, floods of Angolan diamonds poured on to the world market, forcing De Beers to cut its dividend for the first time The difference this time is the arrival in Angola of the big mining companies, and the threat that they will not sell through De Beers

De Beers cannot afford not to be in Angola It is reduced to vacuuming up the diamonds that leak out, either in Antwerp or at its three Angolan buying offices

"It's uncontrolled, it's very hard work We have to go round the world chasing them," said James McLuskie, who shuttles between Angola and Johannesburg for De Beers De Beers still spends about $520 million a year on buying about three-quarters of Angola's output, much of it from rebel-held areas

De Beers moots outback as a prospect down under

(216) BD 19/9/96

JOONDALUP — De Beers Consolidated Mines' future diamond prospecting in Australia would focus on less explored areas, the group said yesterday

De Beers' Australian exploration arm Stockdale Prospecting said past exploration had concentrated on the more accessible Kimberley region in the north of the state The Yilgarn region was far from mature.

"We . . will be spending more money on these hard to get at areas," Stockdale chief geologist Joe Joyce said. "The north is more explored than the south I can see a long-term trend where more of our friends will come this way"

Stockdale planned to maintain its annual A$10m exploration budget in the current year, with about half earmarked for the Yilgarn block and Pilbara region, north of Kalgoorlie, Joyce said. The world's single largest diamond mine, the Argyle mine, — owned 60% by RTZ-CRA and 40% by Ashton Mining — is located in the Kimberly region

Stockdale had discovered 70 kimberlite pipes in the last 20 years But none had met its development criteria of a 3-million carat a year deposit, averaging US$75 a carat over a minimum 10-year mine life

Any future joint ventures with Australian companies would first need to meet De Beers' operational control requirements and willingness to sell through the De Beers-controlled Central Selling Organisation Argyle recently abandoned the CSO — Reuter.

Diamonds are forever ...

(216) M+G (bm) 4-10/10/96

but are cartels? An unholy alliance of Angolan mercenaries, South African gangsters, Belgian mafiosi and Russian nationalists is threatening to blow apart the monopoly that ensures diamonds keep their sparkle, reports Dan Atkinson

IT is late evening, and Johannesburg is a city under siege Forty-four Main Street, headquarters of the Oppenheimer mining and industrial empire — on some measures the greatest commercial concern on earth — was once the juiciest get on the nationalisation hit-list of ...on Mandela's liberationists Now its top brass have the uncomfortable feeling that they may have ...ten off nationalisation only to face a ...rent threat — criminalisation ...ty percent of all goods landed at ...ban's port are disappearing, mod... South Africa's economy being nationalised *de* ...by gangsters

Hundreds of miles to the ...th-west, De Beers, the ...ld's biggest diamond ...ing company and the ... in the Oppenheimer ...wn, faces troubles of a ...erent sort in Angola, world's fourth (or pos...ly third) biggest diamond producer ...hile United States peacemakers ... persuade once-warring factions ...eak bread, every chancer in the ...d seems to have descended on the ...try to make his fortune Diamond... are grabbed by those who have ...lished stability" in the local area, ...ns of dollars of diamonds are ... out of the country and end up ...rld markets without passing ...gh De Beers s worldwide mar... cartel Every unauthorised dia... sale weakens the price of gemstones everywhere

Meanwhile 7 680km away, it is midnight in Moscow capital of the world's second-biggest diamond producer, and a team from De Beers is unwinding after another gruelling day of negotiations with Almazy Rossii-Sakha the Russian gemstone monolith A deal was supposed to have been signed at the start of the year to keep Russia's gems inside the De Beers marketing cartel, but the devil is proving to reside in the detail

Smuggling and leakages out of Russia undermine the cartel from below, while gung-ho nationalist politicians, their grasp of economics shaky to say the least, toy with the idea of rejecting the irksome disciplines of the De Beers monopoly and going it alone Life, veterans will sigh, was so much easier when Soviet statesmen could be relied upon publicly to denounce De Beers as capitalist lackeys of the racist Boer hyenas, while privately ensuring the closest co-operation between the USSR's diamond industry and the chaps from Johannesburg

'Unique among major raw materials, the gem diamond has no material use to material man'

In Britain, it is 10pm, and millions have just watched the latest episode of a BBC costume-drama spectacular in which Martin Shaw plays De Beers's founding father, Cecil John Rhodes The more avid viewers will have included personnel from the Central Selling Organisation (CSO) in Hatton Garden, the hub of the diamond cartel With problems crowding in on De Beers from all corners of the world the guilty thought may occur where is he now we really need him?

To which the reply may well be that Rhodes, or at least his spirit, is now working for the other side The Angolan *garimpeiros* dodging the law to dig diamonds, the brash Australians who this year declared independence and walked out of the cartel, even (or perhaps, especially) the Russian nationalists with their slightly-cracked dreams of a special Russian destiny — all could be seen as more Rhodes-ian than the super-respectable global giant that is the modern De Beers

In Angola, for example, De Beers recently found itself hopelessly out-Rhodesed by a Brazilian outfit De Beers wanted to talk about long-term investment, while the boys from Brazil promptly offered the president's wife a seat on the board Cecil would have been proud — of the Brazilians

But Rhodes would have deplored the anarchy now threatening the world diamond industry He knew better than anyone that diamonds are worth nothing without the artificial rarity only a cartel can provide Or, as CSO chairman Nicky Oppenheimer has put it "Diamonds do not make engines run faster or planes fly further or higher Unique among major raw materials, the gem diamond has no material use to material man"

Take away the strict discipline of the cartel, flood the market with diamonds and within a very short space of time these "gems" will be worth no more than any other coloured stone And De Beers, through its own mines the world's top producer, has long been willing to run the cartel on behalf of its fellow miners

Indeed, Rhodes, during the great African diamond rush of the 19th century, was among the first to understand that the mechanised mining of diamonds, which he had pioneered, was pulling stones out of the ground at a rate incompatible with "rarity" status Central control of supply was essential to the manipulation of demand No wonder Rhodes's heirs were to find it so congenial to do business in Moscow with the ideological descendants of Marx and Lenin

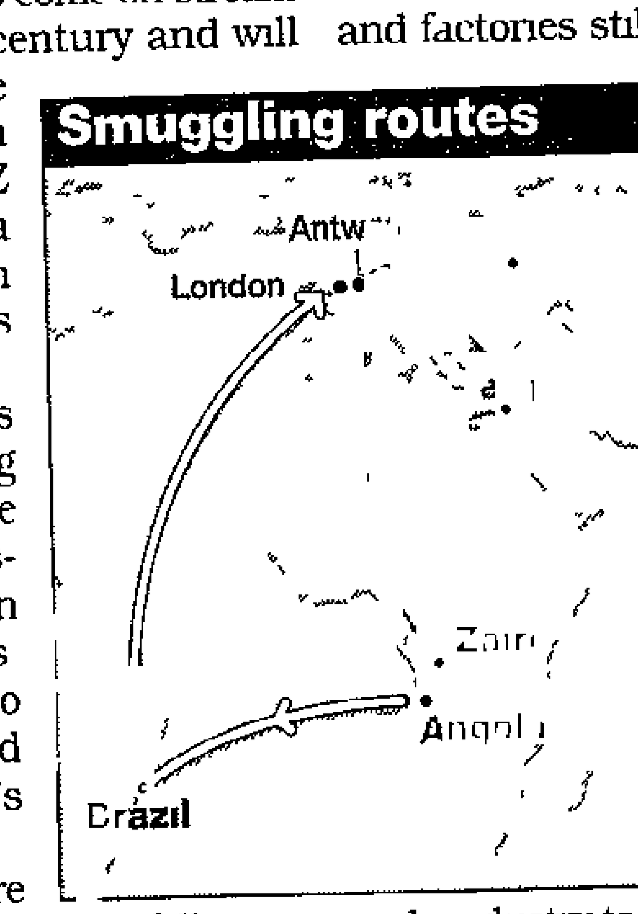
But the vision of a global diamond syndicate was finally realised not by the freebooting Rhodes, but by a German-born Jewish Londoner sometime of South Africa via Maidenhead, Sir Ernest Oppenheimer A legendary figure of astonishing determination, Oppenheimer practically stopped the post-Great War diamond crash single-handed Rhodes s rudimentary cartel broke down during the savage inter-war depression and gem prices collapsed Oppenheimer, chairman and managing director of De Beers, more or less offered to buy all the diamonds in the world in order to support the price, an extraordinary gamble that paid off

Sir Ernest Oppenheimer Moved in to buy up the world's diamond supply

In 1934, he put together the modern cartel, his diamond syndicate with its 10 "sights", or sales, a year in the CSO s Hatton Garden building, today markets perhaps 80% of all the world's diamonds Nearly $5-billion-worth of stones are traded through the CSO every year, all of them to approved diamond brokers vetted by De Beers The first hint of a broker going off-side — dealing with smugglers or (the really heinous crime) attempting to build up his own stock of diamonds — and he will find himself unwelcome at the CSO s Charterhouse Street complex For unwelcome, read out in the cold

This blend of ruthlessness and paternalism has kept the diamond business surviving and thriving through a world war, a cold war the long boom and the recessionary crises of the past 15 years But the chaos of the new world order faces De Beers with challenges of a greater magnitude

Bucking the cartel seems flavour of the decade, from Australia — where Argyle, the world's largest diamond mine in volume if not in quality — walked out of the CSO this year, to frozen north-west Canada, whence diamonds are due to come on stream at the turn of the century and will probably by-pass the syndicate In both cases, Britain's RTZ mining group — a company as grand in its way as De Beers — is involved



Rumour suggests RTZ may be planning an alternative to the CSO to market Australian Canadian and Russian stones although how two "monopolies" would work is anyone's guess

Meanwhile, where RTZ leads, smaller fry are following Recently, just yards from the CSO building, Hatton Garden dealers have been offered diamonds from Brazil, diamonds originating almost certainly in Angola — supposedly a CSO member The Brazilians, exploiting their common language with ex-Portuguese Angola, are becoming formidable players in south-west Africa Black-market "pavement" deals such as this mock the mighty CSO cartel

Far more serious is the flood of diamonds out of Russia to Antwerp and Tel Aviv, smuggling and other "leakages" peaked at about £41-million a month during 1993 and 1994, but dropped to about £8-million earlier this year after the outline deal with De Beers was signed By mid-year, however, unauthorised sales surged again to about £33-million, not a good augury for the detailed talks under way in Moscow

The smuggling routes — Angola through Zaire to Europe or Israel, Moscow through Antwerp and Tel Aviv — are well-marked, and it is hardly surprising that Russian gangsters have been diving into bed with the long-established Antwerp diamond mafia

Smuggling on this scale will, if it continues, eventually break the cartel De Beers is pledged to mop up surplus stones on the open market to support the price, and use these stocks to smooth prices in the future This was the system devised by Sir Ernest Oppenheimer But the point would have to come when even the Oppenheimer coffers would be exhausted And at that point, the entire diamond industry — will collapse

Other price cartels can fall apart without taking the commodity down with them Motorists still need petrol and factories still need oil But diamonds are not a commodity, they are worth what they are worth because the CSO says that is what they are worth And that applies not only to new stones, but to all diamonds everywhere

Paradoxically, it may be this prospect of mutually assured destruction that will bring the world-wide industry to heel Given that there has to be a cartel, it may as well be run by the people who invented it And at Stockdale Street, in Kimberley, where it all began, older hands at De Beers's office will recall seeing and hearing it all before when Sierra Leone went "rogue" 40 years ago, when opals threatened diamonds' prominence before the World War I, when the world quarantined white South Africa in the 1980s

And, should it not prove all right on the night, De Beers executives can always cheer themselves with a glass of Boschendal 1992, a splendid red wine produced at a company-owned vineyard, part of Rhodes Fruit Farms

Cecil John, whatever his faults, provided for every eventuality.

RUSSIA & DE BEERS (216)

WINDING PATH

FM 4/10/96

The road De Beers is being forced to tread in its negotiations with Russian authorities becomes ever more tortuous

This week Alexander Lebed, the powerful secretary of the Russian Security Council (and who brought the Chechnya revolt to a conclusion) offered opinions about the deal between De Beers and Almazy Rossii-Sakha (ARS), the Russian diamond mining company

"I do not understand," he is reported to have said, "how things stand here with regard to gold and diamond production Throughout the world this is a very profitable business, while here it is the other way around "

If it does anything, this suggests the Russian diamond manufacturers have secured a powerful patron and ally. The implication of Lebed's statement is that he intends to make certain the agreement between ARS and De Beers — if it ever gets past the hoard of ministries and officials which claim elements of jurisdiction — is subjected to scrutiny by the Security Council, an area in which he reigns supreme

At the same time, and confusingly, ARS officials say the contentious issues in the way of the overdue diamond sales contract have been settled They claim that for the first time a contract has been submitted to the Russian government for approval (earlier drafts were rejected during ministerial reviews).

ARS has agreed to close an important loophole relating to the definition of "technical goods," an escape clause in the last agreement which enabled the Russians to cheat freely in some areas

And ARS has also agreed to let De Beers have first bite at its run-of-mine production cherry before shipments are sorted for overseas despatch

Last February the two sides agreed Russia will sell De Beers at least US$550m worth of run-of-mine production each year

However, it's a big if ARS has leaked stories the new contract has been approved But the shadowy (and apparently disgraced) Yevgeny Bychkov, former head of Komdragmet, says he knows they haven't agreed "I don't believe the press," he said "Komdragmet doesn't believe the stories either "

All of which suggests formal agreement between De Beers and Russia's agencies still has far to travel

John Helmer in Moscow and David Gleason

Griquas sue De Beers, UK for R18-billion

(216)

WILLIAM-MERVIN GUMEDE
STAFF REPORTER

ARG 8/10/96

The Griqua community is suing the British government and De Beers Consolidated Mines for more than R18-billion for losses allegedly incurred by being dispossessed of their land in the Northern Cape and Free State during the last century.

De Beers is being sued for R8,7-billion for royalties on the mineral rights of the company's Northern Cape and Free State diamond mines which the Griquas say were taken from their ancestors. They are suing the British government for nearly £1,4-billion (about R10-billion) for "robbing and driving our ancestors off their land and property" in the 19th century.

The land restitution claims represent the biggest in South Africa yet. The Griquas filed papers against De Beers in the Constitutional Court yesterday.

"We have a righteous and just claim to any property or land in possession of De Beers Consolidated Mines in the historically Griqua areas of the Northern Cape and Free State," said William Willen, spokesman of the Griqua People's Organisation, the representative authority.

The claims predate the June 19 1913 cut-off specified in the constitution to qualify for land restitution by compensation or

To page 3

Griquas suing De Beers and UK for R18-bn

(216)

From Page 1

ARGt 8/10/96

restoration of land lost through racial discrimination. Mr Willen said the 1913 cut-off date discriminated against the Griqua people, leaving them with no option but to seek legal redress.

He said his organisation had the support of Constitutional Development Affairs Minister Mohammed Valli Moosa.

Mpo Mosimane, spokesman for Mr Moosa, said last night that the minister had agreed to assist the Griquas "where he could, provided they supply all the necessary documents to back up their claims".

The British consul in Cape Town, George Brown, confirmed a letter from the Griqua People's Organisation stating their intention to sue had been delivered to Queen Elizabeth.

He said: "Buckingham Palace noted its contents."

Mr Willen said: "We hold the present British government responsible for damages from loss of life and property incurred during the seizing of our ancestral land in the Northern Cape and Orange Free State by the British. The British robbed our ancestors of thousands of hectares of land.

"The Griqua people demand compensation for damages and want the land, where possible, transferred back to the descendants of the communities," he said.

Piet Kakora, chairman of the Griqualand Executive Council, said: "We want the return of the land to the descendants of Griqua leaders Adam Kok and Andries Waterboer, from whom it was robbed."

Mr Kakora said Mr Brown had told them they had no case as the British government had already given R116-million to the National Land Reform Pilot Project as compensation for the Griqua land claims.

Mr Brown confirmed that his government had donated R116-million for land reform.

EXPLORATION *Big hopes for mining vessel Moonstar*

A joint trawl for sparklers

CT (PM) 18/10/96 (216)

MARC HASENFUSS

CAPE EDITOR

Cape Town — Benguela Concessions (Benco), the marine diamond mining company, and Moonstone Diamond, its Australian joint-venture partner, expect to net $4 million in bottom-line profit from the Moonstar, their newly launched $10 million mining vessel

Yannic Mercier, Moonstone's chairman, said the Moonstar, which can work 12 hours a day for up to 21 consecutive days at sea, could produce 65 000 carats a year.

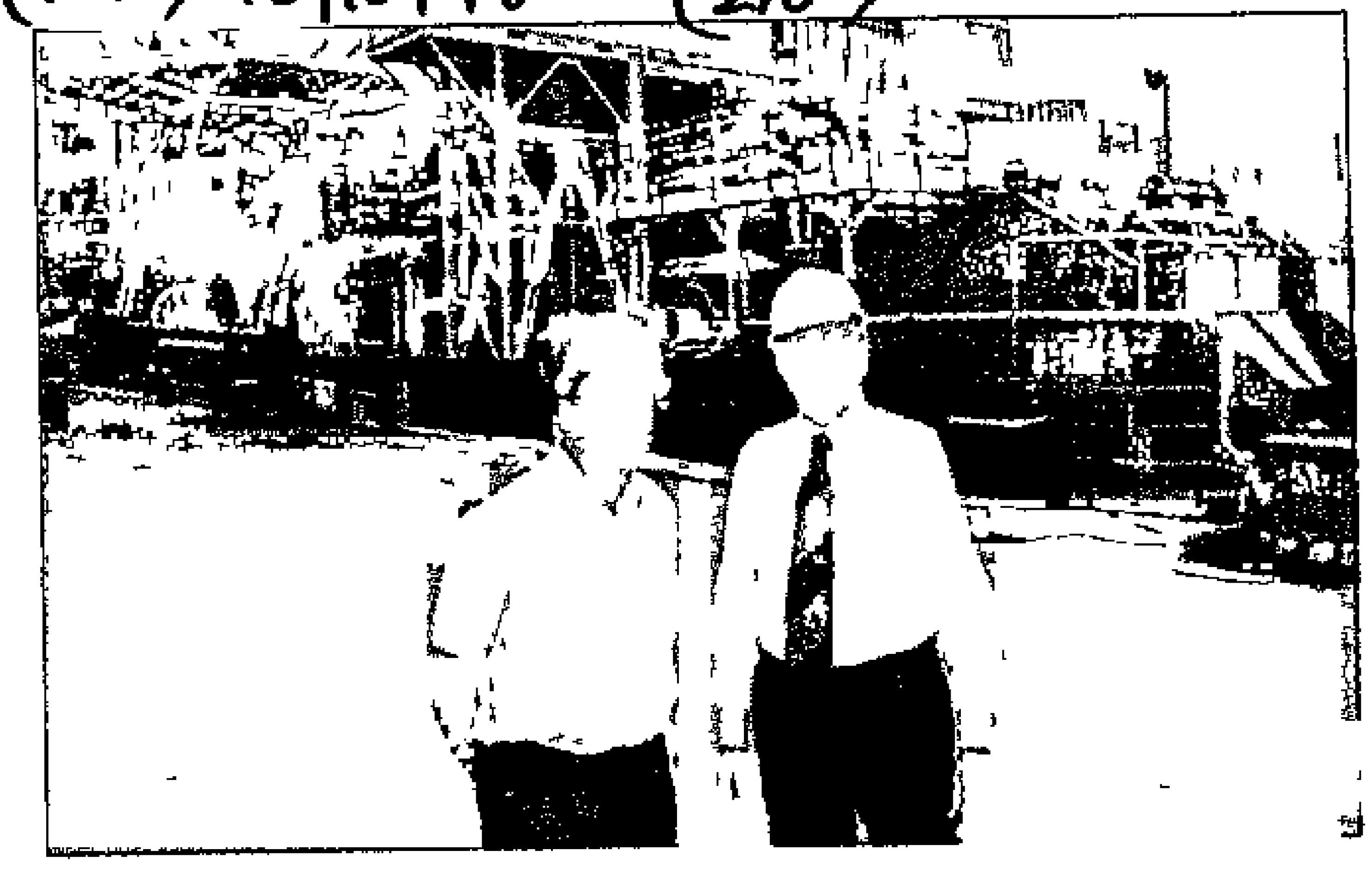
The joint venture was conservatively expected to gross more than $10 million

"Operating expenses could be in the area of $4,5 million, but we must shave off a further 10 percent for unexpected developments, so we can assume bottom line will be about $4 million," said Mercier

The Moonstar will mine diamond deposits off Namaqualand The initial five year ore reserves of about 350 000 carats are expected to be substantially increased as further deposits are developed

John Gurney, the chairman of Benco, cautioned that the Moonstar still had to undergo sea trials, and production would only start in earnest in the early part of next year

Under the joint-venture agreement, Moonstone, which funded the Moonstar's R45 million refit, will receive a 7,5 percent royalty on top of its 50 percent profit entitlement The 7,5 percent will fall to 2,5 percent when the vessel's cost is recouped Benco will receive a 4 percent royalty for managing the project and half the profit



ON A PROFIT WAVE *John Gurney (left), the chairman of Benguela Concessions, and Yannic Mercier, the chairman of Moonstone Diamond Corporation, survey their R45 million "floating mine" in Cape Town harbour yesterday*

PHOTO ANDREW BROWN

Argyle success 'key to De Beers monopoly'

BD 18/10/96 (216)

Reinie Booysen

LEADING diamond analyst Hilton Ashton of SMK Securities has advised clients to "remain underweight" in De Beers shares until year-end, when greater clarity on the uncertain market outlook is expected

By year-end, a clearer picture would emerge on the three most worrying market factors — the marketing of new Canadian diamond production, the survival of Australian producer Argyle outside De Beers' Central Selling Organisation (CSO) diamond monopoly, "and, hopefully, the final conclusion of the Russian sales agreement"

Argyle shocked the international diamond market earlier this year by announcing it intended to market its own diamond production, not renewing a long-standing setup with De Beers.

In a new report on the diamond industry and De Beers called Dawn of a New Era· Multiple Channel Marketing, Ashton said "We are convinced that if Argyle survives on its own then this will signal the beginning of the end of De Beers' control of the industry "

Ashton said De Beers played down the break with Argyle by announcing that Argyle constituted only 6% of CSO annual intake He said "This may be so, but if Argyle can be brave enough to enter the market on its own terms, then other producers will be watching the outcome with great interest "

He said Argyle believed it had the expertise and established Indian client base to go it alone "If Argyle succeeds and remains in business, then other producers will be tempted to market their own diamonds "

Ashton said although "it would be silly to enter into a price war on low and medium quality diamonds" he did not expect that De Beers would sit passively while Argyle cornered that end of the market, so "we expect prices in the low and medium end of the market will remain soft for some time"

Ashton said the CSO and Argyle would both court the Dia Met/BHP joint venture diamond mine in Canada, to market production when it begins in 1998 "In our opinion the scales are tipped in favour of the CSO as the largest player and a traditional stabilising influence on the market," the SMK report said

Firm spot prices boost coal exporters' hopes

BD 21/10/96 (216)

Reinie Booysen

MARKET indications for SA coal exporters are upbeat in the run-up to the CoalTrans conference next week, when the annual contract negotiations between buyers and sellers kick off

Firm prices in the spot markets recently have encouraged coal analysts to hope for buoyant term prices next year, but industry executives have recommended caution on the grounds that the spot deals have been small and relatively isolated

Last year's term prices — around $33,50 a ton if contracts with Enel, the major Italian utility, are taken as a benchmark — are nonetheless likely to be at least steady or higher

One leading analyst says producers can "comfortably expect an increase of about $1,50"

Among the spot deals was the sale by Ingwe of two cargoes (60 000 tons each) at $35 a ton for delivery in the first quarter of next year

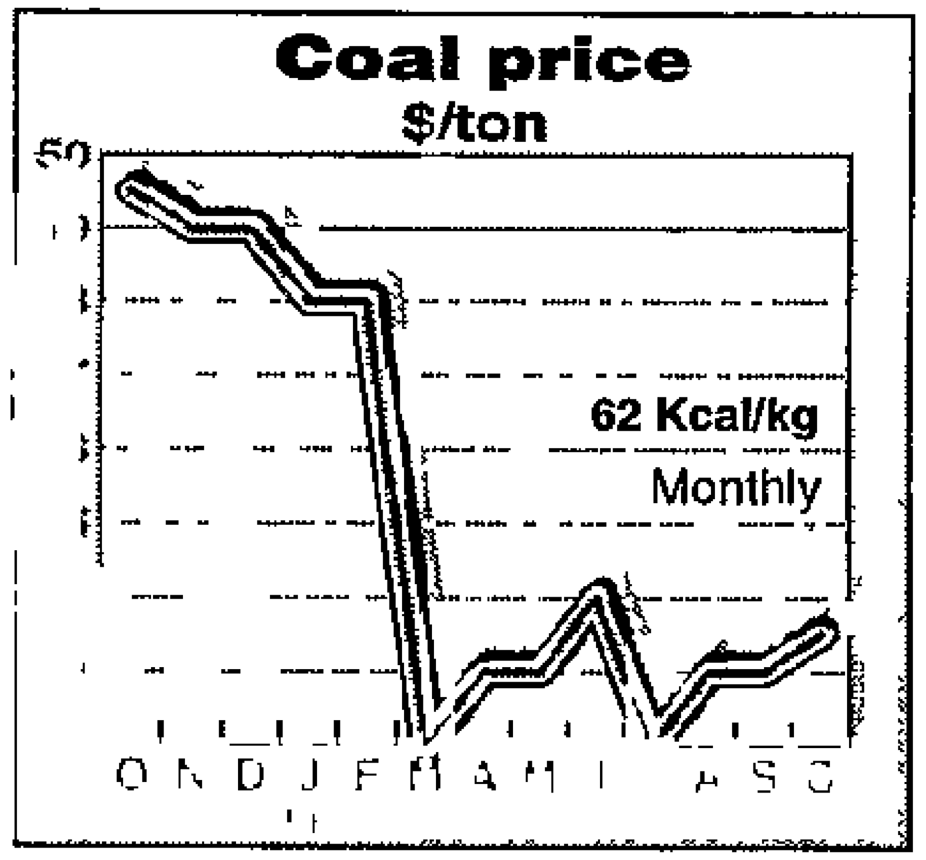
One indicator of the market's tone is the urgency with which buyers wish to negotiate if the market is firm, many buyers tend to delay negotiations in the hope that prices might ease, and vice versa

Ingwe marketing manager Gordon Osterloh says he expects negotiations with European buyers and some Far East destinations to commence in earnest next month or in December He says it is "no secret that the market has tightened".

Ingwe will be seeking price increases, he says, particularly in view of the decline in freight rates

Among the causes is the shortfall in SA deliveries caused by the heavy rains earlier in the year.

As a result, exports through Richards Bay are likely to total between 58-million and 59-million tons, as opposed to a target of 60-million tons set by the Richards Bay Coal Terminal



At end-September, 44-million tons had actually been shipped, and sources at the port say October should add another 5,2-million to 5,3-million tons.

"December . . could be a very busy month," one source says. "The shareholders are working to get as much stock on the ground as possible, so we could have shipments of 5,3-million to 5,4-million tons "

Next year Richards Bay's volumes should rise sharply as the port's capacity is scheduled to be expanded from 60-million tons a year to 63-million tons by the end of the first quarter.

The rail link should be ready to handle that capacity by December this year

Meanwhile, local producers are working around the clock to ensure that they are able to utilise the increased capacity Ingwe is investigating reclaiming unmined portions of disused Witbank mines, capable of yielding 2,5-million tons a year, as well as the No 5 seam at Khutala

JCI's Tavistock is to develop the Witbank No 5 seam on two of the company's Witbank properties, the South Witbank and Tavistock mines. Amcoal's Goedehoop Colliery is expanding output by exploiting the No 2 and 4 seams

The Arthur Taylor Underground Mine, a joint venture between Tavistock and TESA, is being expanded Gold Fields Coal is aiming to increase output by 1-million tons a year by opening the No 4 and 1 seams at its Greenside Colliery

Shell is close to a decision on a 1,5-million ton-a-year mine in Mpumalanga, which would enable it to utilise fully its 7% share of the Richards Bay terminal (it was entitled to export 7,4-million tons through the terminal last year, but managed only 6,4-million tons)

Last year Shell sold a 5% share in the terminal to Sasol, which is aiming to export 960 000 tons next year and 3-million tons a year by 1999. In August it also sold 0,5% to Duiker, increasing Duiker's stake to 6%

The other major Richards Bay shareholders' stakes are unchanged, with Ingwe at 42%, Amcoal at 23%, Total at 6%, JCI at 4% and Gold Fields of SA on 2%.

Diamond firm exceeds target

MD 23/10/96

(216)

Samantha Sharpe

CAPE TOWN — Ocean Diamond Mining Holdings, involved in marine diamond mining, exceeded its targeted production by 17% in the six months to September following good deposit finds, the company said yesterday

The company set production at 65 000 carats for the year to March next year, 32 000 of which were accounted for at the interim stage

MD Andre Louw said that the company would continue its systematic mining of the Halifax Basin Deposit.

"Distribution of deposits are such that production levels for the first six months of the financial year should be maintained in the second six months," he said.

Sampling showed an average diamond size of between 0,4-0,5 carats and a smaller proportion larger than two carats a stone, with stones well sorted, Louw said.

Diamonds sold from the basin deposit to date had fetched market prices ranging from \$185 to \$190 a carat

"Under present market conditions and in the absence of larger stones, it seems it will be difficult to obtain prices of more than \$200 a carat, Louw said

He said strong production figures made the company optimistic about achieving a "significant" earnings increase in the present financial year relative to the previous two financial years, when it posted R6,3m and R106 000 in attributable income

De Beers and ARS await Russia's approval

CT(BR) 23/10/96

The Russian government still has to complete a review of the trading agreement that Almazy Rossii-Sakha (ARS), Russia's largest diamond mining company, plans to sign with De Beers, Lev Safonov, the first vice-president of Almazy, said yesterday. He said Almazy and De Beers' Central Selling Organisation would sign the agreement as soon as it won government approval. The companies detailed the agreement, based on the Memorandum on Main Principles the Russian government signed with De Beers in February, during talks in Moscow last month. The finance and economics ministries have already given their approval. Russia is exporting diamonds under a five-year agreement signed with De Beers in 1990 until the new agreement is signed. The old agreement formally lost its force at the end of last year. — Bloomberg, Moscow

(216)

Russian gem firm's violations 'not linked to De Beers'

(216) BD 6/11/96

David McKay

RUSSIAN state diamond company Almazy Rossii Sakha is being investigated for financial violations and an audit is planned of its links with De Beers with whom it has agreed a new diamond marketing arrangement.

Almazy and De Beers have been locked in talks for more than eight months on a marketing agreement according to which Almazy will sell at least 85% of its $1,3bn in exports to the Central Selling Organisation (CSO), De Beers' marketing arm.

It is understood that the text of an agreement has been agreed between the Russian company and the CSO, with the final go-ahead awaiting government approval

However, Russian Finance Minister Alexander Livshits told a government meeting that "very serious financial violations" at Almazy were discussed at a government commission on boosting budget revenues.

AP-DJ reports that the commission gave the president of the republic of Yakutia, where Almazy is based, a week to remove the government officials involved in running the company.

Almazy is state-owned, but controlled largely by local authorities in the independence-minded region

Livshits said fines for Almazy's violations of foreign-exchange regulations alone amounted to more than $379m.

A De Beers spokesman said yesterday De Beers could not comment on the Russian firm's position However, the alleged financial violations had no connection with De Beers, he said.

"The current position is that De Beers has completed discussions with (Almazy) and that the relevant draft agreement is with the appropriate authorities (government)," he said

He would not be drawn on whether the allegations threatened negotiations on the marketing agreement, but said Almazy was "empowered" by the Russian government to negotiate the agreement with De Beers.

In August, the government put together a report detailing serious financial troubles at Almazy.

This report showed the company had debts of 3,1-trillion roubles despite reporting revenues of $1,38bn last year.

The report said Almazy management had diverted hundreds of billions of roubles to costly and unprofitable projects since the company was founded in 1992

Meanwhile, dividends were never paid on the state's controlling stake in the company, the report said

At the time, the finance ministry called for Almazy to be broken into separate production and marketing enterprises.

In July, the Russian company reached an agreement on a $500m, two-year loan facility with UK banking group NatWest.

Almazy, which controls 98% of Russia's diamond production, is one of the country's largest export earners.

There's a king's ransom in them thar waters

(216) CT (BR) 11/11/96

Andi Spicer
Mining Editor

Beneath the waves off the coast of southern Africa lies a king's ransom in diamonds. Washed down ancient river courses from inland sites of volcanic activity where diamonds were originally produced, the gems litter the seabed off South Africa and Namibia.

It is estimated that nearly half of Namibia's annual production of 1,3 million carats of high-quality gem diamonds is lifted from the sea. Geologists believe this percentage will grow as land diamonds become increasingly rarer.

All diamonds taken from the sea tend to be high-quality gemstones. Stones of up to 7 carats are found in shallower waters and up to 14 carats in the deeper waters.

'The sea mining method works like a giant vacuum cleaner'

Although there are large companies active in marine diamond exploration, such as DebMarine, a subsidiary of De Beers, there are also a number of smaller companies exploring and mining in southern African waters.

NamDeb, the Namibian wing of De Beers, is one of the largest diamond miners, as is the former Consolidated Diamond Mines company, now a fifty-fifty partnership between De Beers Centenary and the Namibian government.

DebMarine and some private operators recover the diamonds from the sea for NamDeb and do survey work for the group elsewhere in Africa.

One of the largest non-De Beers operators in southern Africa is Ocean Diamond Mining (ODM), which boosted annual production fourfold to 50 000 carats in the 1995 financial year. It has two vessels — the Oceandia and the Namibian Gem — and is planning to buy a third.

ODM has prospecting rights to four South African ocean areas but has sold rights to two of these to another company while sharing rights to the remaining two with Benguela Concession (Benco). Most of its production, however, comes from the Namibian Islands concession, and it is looking to expand mining rights off the coast of Namibia near Luderitz.

Benco, which is bankrolled by BHP, the Australian multinational resources company, has spent about R100 million on exploration.

Nearly half of Namibia's diamond production is lifted from the sea bed

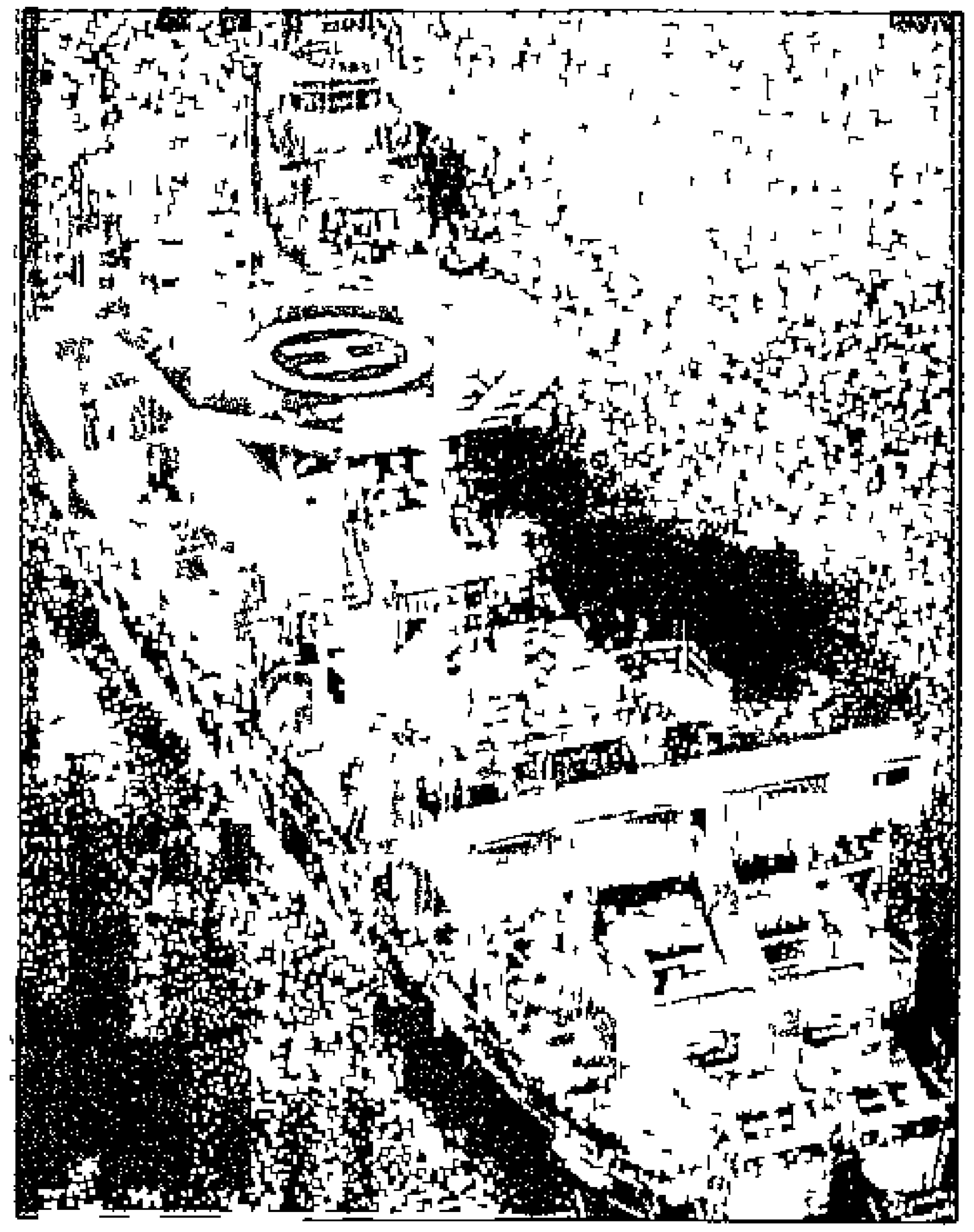
It has formed a joint venture to develop its deep-water concessions and has found a resource of 345 000 carats of submarine gem-quality diamonds. Though a large operation like De Beers would find it uneconomic to develop this resource, it was just right for a smaller operation like Benco.

Diamonds were formed millions of years ago deep in the earth's mantle, more than 150km below the surface. Carbon in the mantle was subjected to high pressure and temperature.

It then crystallised to form diamonds. About 90 million years ago, melted rock, or magma, formed in the earth's mantle forced its way up through the earth's crust and burst through the surface.

The magma carried diamonds contained within it. When it cooled in the carrot-shaped pipes through which the magma pushes up, the diamonds became embedded in the rock that was formed. This became known as kimberlite, named after Kimberley, where diamonds were first found in South Africa.

At first, the sparkling gems were found lying loose on the ground. Prospectors then picked up diamonds in rivers, known as alluvial diamonds. These were the result of the erosion of kimberlite koppies, or small hills where the diamonds were washed down into rivers and then deposited on dry land as the river changed course.



As diamonds became scarcer on land and in rivers, technology advanced so that stones washed out to sea at the end of the river mouths could be collected.

In southern Africa, marine diamonds have been found off the Cape and the Namibian coasts from the mouth of the Olifants river in the south to Luderitz in the north, a swathe of about 700km.

These diamonds were carried down the ancient Orange river drainage systems.

Other ancient systems such as the Olifants river and a long-dried-up river in the region of Luderitz also transported large number of the gems from kimberlites in the interior to the ocean floor. These river systems are millions of years old.

The flows of these giant rivers in the distant past are mostly unknown and can only be guessed at.

Similar to diamond deposits in the interior, marine diamonds are found associated with minerals such as jasper, agate, ilmenite and olivine.

The sea mining method is simple. It works like a giant vacuum cleaner sucking up gravel from the seabed and then filtering out the diamonds before dumping the sediment back into the ocean.

Some of the ships used to extract diamonds are high-capital large-scale sea mining ventures. Others are small operators whose divers actually swim along the seabed in depths of up to 30m and identify where diamonds lie. Using this method, sediment is again sucked up and then bagged on board. An average trip collects 700 bags. The gravel is sorted on shore.

Polished performance by diamond miner Trans Hex

(216) ARG 20/11/96

ALIDE DASNOIS
BUSINESS EDITOR

Mining company Trans Hex is set for further growth following a sparkling performance in the half-year ended September.

The weaker rand put plenty of polish on the group's diamond mining operations, with shareholders' profits up 35 percent to R27 million in the six months to September

Managing director Niel Hoogenhout said the increase in turnover from diamonds and in group profits was due mainly to the decline in the value of the rand Trans Hex's lime division did not meet targets because of delays at the Vredendal plant and losses of R3,6 million at the Bitterfontein granite quarry, which has now been closed.

Mr Hoogenhout expects prices of quality gem diamonds - the bulk of Trans Hex production - to stay firm. Sustained results from the diamond division and a better showing from lime operations should maintain the group's performance in rand terms in the second half, he says

Exploration plans, in South Africa and abroad, will make heavy demands on the group's R26,5 million cash pool.

In South Africa, Trans Hex's marine operations will be boosted by the purchase of rights to three new concession areas for R9,8 million.

Also, promising results along the banks of the Orange River have spurred the purchase by the company of earth moving equipment with an estimated value of R25 million.

COMPAN

Exploration company raises interim profit 233% on good fundamentals

Ocean Diamond Mining gleams

CT (BR) 27/11/96 (216)

MARC HASENFUSS
CAPE EDITOR

Cape Town — Ocean Diamond Mining Holdings reported a 233 percent rise in interim profit to R6,6 million yesterday and is expected to comfortably top R13 million at the bottom line for the full year to March 31

Andre Louw, the managing director of Ocean Diamond Mining, attributed the improved profit in the six months to September 30 to an increase in diamond production and the higher rand price for diamonds

"In addition to increased diamond production of 32 250 carats from our two vessels, which was 49 percent higher than last year, our continuous efforts to curtail costs yielded positive results," he said

"The consistently high dollar price for our gem-quality stones, and particularly the weaker rand which added about 20 percent to turnover, further boosted income," Louw said

He was confident the company would achieve its 55 000 carat production target by the end of the financial year "With a further softening of the rand we are optimistic that our financial performance in the second half will at least equal that of the first"

For the interim period under review the company's turnover rose 80 percent to R22,2 million, and operating profit (after depreciation of R2,6 million and increased exploration expenditure of R2,3 million) was up fivefold at R4,7 million

Attributable earnings were bolstered by income of R1,4 million, which stemmed from Ocean Diamond Mining's buoyant cash position of R33,4 million

Louw said the dedicated mining vessel, the Namibian Gem, played a key role in the company beating its interim production target of 27 000 carats He said the company was still on track to acquire a third mining vessel and said it had bought a dedicated survey vessel, The Halifax, for R1 million

He said the company's exploration costs, which more than doubled from last year's R1,1 million, would continue to rise as the potential wealth of its new Island concessions off the Namibian coast were unlocked

Russia, De Beers agreement delayed

(216) BD 11/12/96

MOSCOW — A senior Russian precious metals and stones official said on Tuesday that a long-delayed diamond deal between Russia and De Beers was undergoing further government reviews and that it could be delayed indefinitely

Vladimir Piskunov, head of the industry ministry's precious metals and stones section, told a news conference that the Russian government was examining the text of the agreement "at the highest levels"

He said it had requested further evaluation of the document.

"Yes, I will admit that this (a final signing) could drag out into 1997," Piskunov said after the conference. He declined to say when a final deal would be signed.

But he said the delay was not connected to a state investigation into the finances of Almazy Rossii-Sakha, or ARS, the Russian diamond producer and exporter that is the partner to De Beers Consolidated Mines in the deal

He also said the new role of Yevgeny Bychkov — former head of the defunct state committee for precious metals and stones, which was De Beers' negotiating partner, and now head of an independent diamond industry organisation — had not played any part in delays in the agreement

"I don't think there's any connection to Almazy Rossii-Sakha and I in no way connect Bychkov's position to the trade agreement — there are other processes involved," Piskunov said.

He said pricing issues were at the core of delays behind the signing, but that details over volume sales had been agreed upon

ARS supplies a quarter of De Beers output, produces nearly all of Russia's diamonds and is Russia's sole authorised exporter. It achieved $1,38bn in sales last year.

President Boris Yeltsin removed Bychkov from office in February and disbanded the committee in August, both by decree — Reuter.

De Beers' mining lease causes outcry

(216) BD 12/12/96

NEW DELHI — India's main opposition party of Hindu nationalists staged a protest in parliament yesterday over a lease given to an SA firm to mine diamonds in the country, saying it went against the "national interest" and was creating unrest.

The Bharatiya Janata Party (BJP, Indian People's Party) blocked business in parliament and demanded the withdrawal of a contract awarded to De Beers Consolidated Mining by the state government of Madhya Pradesh

But parliamentary affairs minister Srikanta Jena said the federal government was not legally empowered to cancel the deal with De Beers.

The leasing of the diamond mine in Madhya Pradesh came up in parliament six days after Hindu nationalists forced a De Beers delegation to leave Raipur city in the central state upon their arrival on December 5

The De Beers officials were part of a delegation led by Deputy President Thabo Mbeki, whose five-day trip to India ended last Saturday

De Beers plans to set up a joint venture worth $30m with India's Reliance Industries to mine diamonds in the region The proposal was approved by the government in October. — Sapa-AFP.

Black-owned diamond sight in offing

BD 13/12/96 (216)

Shareen Singh

THE Mineworkers' Investment Company (MIC) is in talks with De Beers with the intention of becoming the first black-owned enterprise to acquire a diamond sight, entitling it to buy rough diamonds directly from De Beers' Central Selling Organisation (CSO).

De Beers' sights are jealously guarded privileges bestowed by the diamond cartel on carefully selected associates It entitles the holder to attend 10 annual sights at De Beers' invitation, at which the holder is obliged to buy individually tailored parcels

MIC formed diamond polishing and cutting company South African Teemane four months ago in a joint venture with Belgian company Tasche Bros and Belgian businessman Louis Stelman MIC has a 47% stake

Teemane chairman Archie Luhlabo said yesterday he saw no reason why De Beers would not grant a black-controlled company with mine workers as shareholders a sight "We have solid foreign partners with diamond-cutting, polishing and merchandising skills, and we plan to empower our people with these skills and create jobs " He said the talks were "promising"

"We are planning to train blacks in the diamond cutting business, so that they can in turn try to get into the business in a big way Many people can buy through Diamdel, but getting a sight is real empowerment," Luhlabo said

Teemane was developing a relationship with De Beers through Diamdel (an associate company of De Beers) and the Central Selling Organisation and would prove to the company that it was "capable of using sight privileges to the fullest, and to the benefit of the country", Luhlabo said

De Beers spokesman Tom Tweedie said there were 16 SA sight holders and 160 worldwide.

In granting a sight De Beers would need assurances that the company had access to cash and the capacity to cut and polish locally, Tweedie said

Luhlabo said Teemane had to date purchased three parcels of diamonds, paying about R3m in total

Tasche Bros and Stelman each own 22% of Teemane and the remaining equity is split 5% to management and 4% to a consortium of black businessmen

The company has a factory in Doornfontein, where the stones are cut and polished before being marketed through its Belgian partners Luhlabo said that Teemane would in the short term market polished diamonds abroad, but its long-term objective was to develop the diamond beneficiation industry locally and create jobs

De Beers issues ultimatum to Russia

(216) CT (BR) 19/12/96

Jonathan Rosenthal

Johannesburg — De Beers said yesterday that it had delivered an ultimatum to the Russian government to ratify a new trade agreement by the end of the year, failing which the Central Selling Organisation (CSO), the diamond producer's marketing arm, would not continue buying Russian diamonds under the terms of a five-year deal which expired last year

CSO sales of rough diamonds this year rose 7 percent to $4,8 billion from last year's $4,5 billion The CSO controls about 75 percent of the world's rough diamond sales and buys about 20 percent of its rough diamonds from Russia

Gary Ralfe, the CSO's managing director, said the Russian authorities had shown a cynical disregard for the terms of the sales agreement by allowing substantial leakage of diamonds on to international markets In September, the CSO reached a new agreement with Almazy Rossii-Sakha, Russia's largest diamond producer, but it had yet to be ratified by the Russian government

"Were it not for the fact that substantial leakage of diamonds out of Russia continued unabated, we would have been happy to continue to buy under the old agreement," Ralfe said He said the delay could be attributed to political obstacles and vested interests in Russia

The CSO had agreed to buy a run of mine production worth $550 million from Russia, which had realised more than $2 billion from the sale of diamonds, largely through the sale of stockpiled stones of about $1 billion a year Ralfe would not place a value on the leaked stones, but said CSO sales would have exceeded $5 billion this year without leakage.

If the Russian authorities failed to ratify the agreement, he said, "we will be free to negotiate with any Russian authority to protect our commercial interests", adding that the announcement would not cause undue ripples in the market "I don't think there is any doomsdayism . The more cynical have said there has been no agreement for the past two years anyway"

But London analysts warned the CSO's brinkmanship could backfire "The Russians could go off and sell on their own, which would introduce some competition to the market and put prices under pressure," said one

De Beers' rough diamond sales up by 7%

(216)

ARG 19/12/96

Johannesburg – Sales of rough diamonds by the De Beers Central Selling Organisation this year totalled US $4,8 billion, seven percent higher than the previous year's sales of $4,5 billion, De Beers said yesterday.

Sales in the second half of the year were US $2,1 billion, five percent higher than during the same period last year.

De Beers said following the signing of a memorandum of understanding between the Russian government and the company in February, De Beers had been negotiating the details of a new trade agreement with Almazy Rossii-Sakha.

"The negotiations were effectively concluded before the end of September to the satisfaction of both De Beers and ARS and since then the parties have been waiting for the approval of the Russian government."

The CSO had continued to buy diamonds from ARS under the old agreement, which would have expired at the end of 1995. These arrangements had not operated satisfactorily this year, and De Beers had indicated that it was not prepared to continue to buy diamonds under the old agreement beyond December 31

"De Beers still hopes that the Russian government will ratify the new trade agreement in due course In any event, De Beers intends in the New Year to review its relationship with the relevant authorities," De Beers said. – Sapa

Small companies hooked on marine diamonds

Analysts say enterprises deserve to be more highly rated by investors

(216) ARG 19/12/96

MELANIE CHEARY

Johannesburg - The treacherous waters off Southern Africa's west coast hold a vast treasure in marine diamonds - risky to recover but worthwhile for the small ocean mining companies that have taken on the task.

"Marine diamond deposits off the west coast of Namibia and South Africa are probably the largest known source of gem-quality diamonds in the world," said Ross Gardiner, diamond analyst at Johannesburg-based stockbrokers Frankel Pollak.

His conservative estimate pegs that total ocean resource at a rich 1,5 billion carats

Analysts say the small independent enterprises, braving the seas and struggling to bring each carat to the surface, deserve to be more highly rated by investors, who have often tended to shy away from the industry

"We believe that the exploration and development potential of the locally listed small diamond companies are not being valued sufficiently by the market," Mr Gardiner said.

Citing Ocean Diamond Mining Holdings Ltd (ODM), whose interim profit surged to R6,6-million from R1,9-million previously, BOE Natwest analyst Barry Sergeant said "For any stock market it's important to have junior companies in the resources area, like ODM Those options must be available to investors"

In addition to ODM, the smaller ocean miners include among others Benguela Concessions Ltd (Benco) and Namibian Minerals Corporation Ltd (Namco)

But, while the gems are there, getting them from the sea bed is expensive, risky and often disappointing, earning a gambling reputation for the companies that try their luck.

"The small marine diamond producer has been labelled with a 'hit-or-miss' tag resulting from the perception of an industry that finds diamonds through luck rather than skill," Mr Gardiner said, but added that technological advances were bringing change.

Analysts said survey and geological mapping techniques had been developed to such an extent that the small producers could now hone exploration on models of resource areas, reducing the risk involved and enabling the industry to grow

Nevertheless, ships are still required to sail off the Skeleton Coast and anchor in turbulent surf, exposed to volatile weather and heavy ocean swells.

And while the most common form of marine mining now uses an airlift suction pipe to haul up chunks of sea floor, many small miners still send divers overboard.

Even when found, the diamonds don't ignite excitement.

Mr Sergeant said "It's profitable mining but not that lucrative The sea action has distributed these diamonds very evenly and not in great quantities.

"They're uniform in size The attrition of that dangerous coast has ground them down."

The relatively inexpensive start-up costs and short start-up time make ocean diamond mining the playground of the smaller, more junior companies

"A junior can do exceptionally well with sharp management, the right deposits and proper finance An advantage in marine diamonds is that you can commission a new mining operation in about 18 months To build an on land commercial diamond mine is going to take you in the region of four years," Mr Sergeant said.

"You've got a very fast start-up situation. Apart from that the risks remain The principal risk with the juniors is that they face under-capitalisation. They have low-tech, inexpensive ships and overall the risks are higher for them."

But some analysts dispute the overall economic viability of marine diamond mining and say supply to meet skyrocketing gemstone demand is unlikely to come from under the sea.

"It's all very well attempting the size of the resource of marine diamonds off the west coast of Africa, but how many of those carats are economical? The economics of the situation dictate what actual mining operations follow," Mr Sergeant said.

Analysts say that South African diamond giant De Beers has calculated the size of world gemstone demand by 2000 and has put its money into expanding an on-land, open-cast mine in Botswana to meet this demand.

Debswana - an equal partnership between De Beers and the Botswana government - plans to expand its Orapa mine to raise output to about 11,5 million carats a year by 2000

Costing Debswana about $290-million, the project will make Orapa the largest source of gem-quality diamonds in the world.

"Obviously they've worked out some sort of figure for the year 2000 and they don't think marine diamonds are going to fill the gap If you look at the major producer, De Beers, they have evidently chosen Orapa over ocean diamonds," Mr Sergeant said. - Reuter

De Beers' diamond sales surge as US demand rises

(216) BD 19/12/96

Reinie Booysen

ROUGH diamond sales by De Beers' Central Selling Organisation (CSO) rose 7% to $4,83bn (R20,4bn) this year — a new record for the cartel — as US demand for diamond jewellery surged 8%, underpinning a 5% rise in worldwide retail sales.

CSO MD Gary Ralfe said sales would "almost certainly" have exceeded the $5bn mark if De Beers had not been forced "to pull in the horns on sales of so-called Indian goods" or small diamonds, in an effort to prevent a further deterioration in the oversupplied state of that market sector.

After announcing De Beers had issued the Russian authorities with an ultimatum to reach a new sales agreement with the diamond monopoly by next month, Ralfe said the cheaper end of the market was in a precarious state.

"The direct and evident reason for this is the rupture with Argyle," said Ralfe, referring to the Australian diamond producer's decision this year to abandon the CSO and market its diamond production itself.

"The more fundamental reason, however, is the amount of Russian technicals (cheaper diamonds) entering the market"

De Beers said Japanese sales "showed signs of recovery in a difficult economic environment", while sales in East Asia "showed continuing strong growth, with sales in the region, excluding Taiwan, up by 12%".

Including Taiwan, retail sales within the region were up only 2%. Analysts said Taiwanese demand for diamond jewellery dropped sharply this year due to the overall damper on consumer demand sparked by the military tension earlier this year between Taiwan and China

"In Europe, 1995 sales remained mixed, with the UK, France and Italy performing well." Long- and medium-term prospects for the retail diamond jewellery market remained positive in most parts of the world, De Beers said.

Second-half sales this year totalled $2,1bn, 5% higher than the year-earlier period In line with traditional trends, second-half sales were well below the first-half figure of $2,75bn. Since 1986 De Beers' sales have surged from $2,6bn to $4,83bn Analysts said the result was roughly in line with most expectations.

He said next year's sales figure was difficult to predict

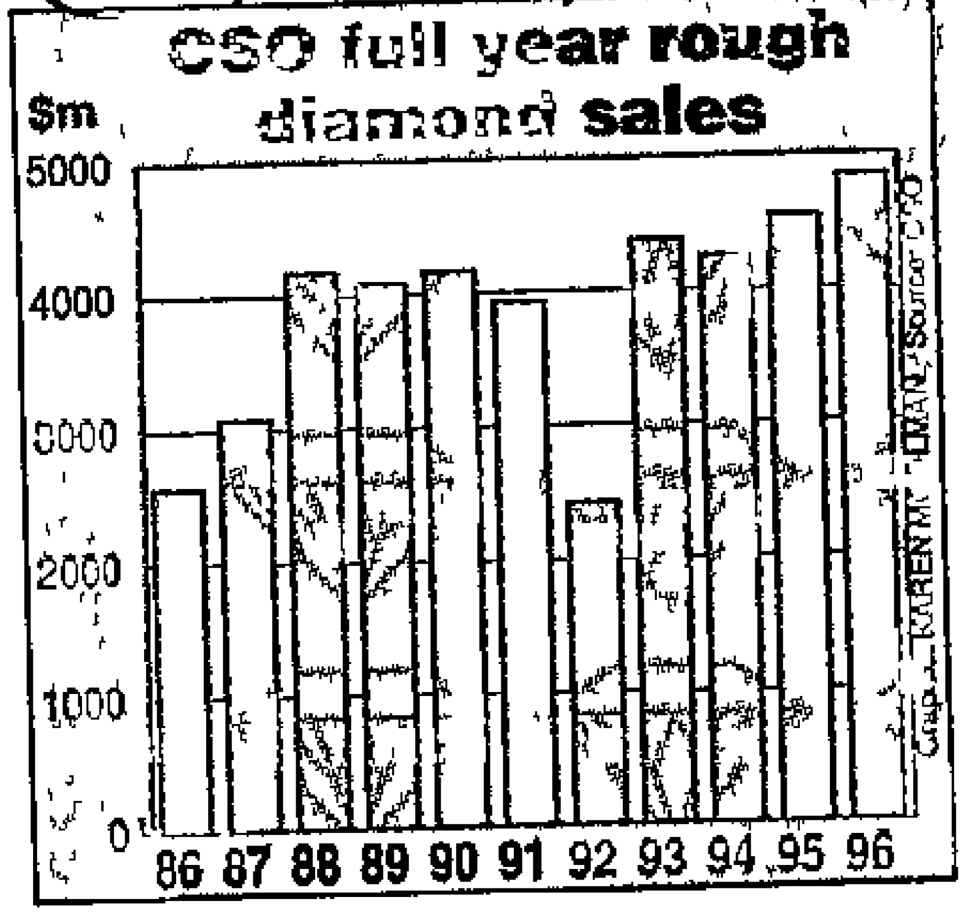
"It depends on two considerations. Your view of what diamond jewellery sales will be doing, which depends upon your view of world economic growth. The second issue is whether De Beers will retain its market share If it does, sales should rise by another $200m If it does not, then sales could be anything; higher, lower or unchanged."

Reflecting the growing nervousness about the precarious relations between De Beers and Russia, De Beers closed R3 lower at R129,50 on the Johannesburg Stock Exchange yesterday

De Beers ultimatum could crack CSO

(216) BD 19/12/96

Reinie Booysen and Neil Behrmann



DE BEERS could be on the verge of abandoning control over another major chunk of worldwide diamond production after yesterday's ultimatum to the Russian authorities to sign and implement a new diamond sales accord by January.

The diamond cartel's MD, Gary Ralfe, said it would then have no option but to enter the Russian market as free agents and purchase diamonds from whatever sources it could find, and whatever quality diamonds it desired. De Beers would no longer have to buy and stockpile unsaleable stones.

"Up to now we have only dealt with ARS (Almazy Rossii-Sakha) and (the province of) Yakutia," said Ralfe. "If we don't have a new trade agreement by January, however, we will be able to arrange to buy diamonds on a willing buyer, willing seller basis, and we will be free to intervene in the diamond markets."

The news is likely to ripple through the international diamond industry today as diamond brokers and polishers contemplate the consequences of further deterioration in De Beers' formerly tight grip on this market

De Beers officials said Russia accounted for 26% or $1,2 of De Beers' $4,83bn sales. The group currently controls about 75% of global rough

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De Beers

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diamond output

Earlier this year a major diamond producer, Australian Argyle, abandoned the Central Selling Organisation (CSO) after it failed to negotiate an improvement in the terms of its contract with the cartel. Analysts fear that several Canadian diamond producers, due to start up operations over coming years, might market their stones outside the CSO as well, leading to even more fragmentation in the market.

But Ralfe did not think losing control over Russian sales would constitute "a doomsday scenario. Some of the more cynical members of the industry would say that we have not had a contract with the Russians for the last three years in any case "

Ralfe said De Beers reached an impasse after it became clear that the "substantial leakages" from Russia (De Beers-speak for illicit diamond sales in contravention of the agreement for the bulk of sales to go through the CSO) were continuing in spite of the fact that a new sales agreement was awaiting government approval "This is very clearly a cynical disregard of that agreement," said Ralfe

In an interview, however, he said. "The door has not been closed We want to concentrate their minds and bring them back to the negotiating table "

ARS, the main Russian producer, had negotiated a new accord at the end of September, said Ralfe This purchase agreement extended a five-year accord which expired at the end of last year De Beers had honoured its side of the accord to buy 95% of Russian diamond exports, but Russian independent sales had accelerated in the past two months.

Ralfe estimated that Russia's annual sales from its huge but rapidly declining treasury stockpile averaged $1bn a year in the past three years Inclusive of estimated annual production of $1,2bn, annual Russian exports exceeded $2bn.

Sales of diamonds from the stockpile are not included in the accord, so the diamonds — mostly better quality — were siphoned off to the Russian gem-cutting industry or sold on the international market.

Dealers said a possible benefit of abandoning control over Russia was that De Beers could concentrate on southern African producers, including Botswana and Namibia.

"De Beers would not have taken such a tough stance with Russia had it not been in a strong position," said Marcel Pruwer, an Antwerp diamond broker. Diamond demand worldwide was improving and 1997 should be another good year, he said.

Other dealers, such as Marcel Grunhut of Double MG Antwerp diamond dealers, said the Russians were flooding the market with "all sorts of diamonds". They were beginning to cut prices and were likely to become more aggressive next year These dealers contend that the market for top quality stones is strong Sales of medium qualities are reasonable, but there is a glut of small, cheap diamonds

Picture: Page 3
See Page 7

Ordinary shareholders consider action to block De Beers, ICH deal

BD 20/12/96 (216)

Reinie Booysen

DISSIDENT shareholders in Industrial & Commercial Holdings (ICH) said they would consider legal action and an appeal to the trade and industry minister after a general meeting yesterday voted for the board's decision to restructure the company's interests in De Beers' Venetia diamond mine.

The restructuring approved by 61% of shareholders was aimed at the substantial tax benefits to be gained by mining and industrial group Anglovaal, and major institutional shareholders in ICH itself.

Ordinary shareholders, who formed the bulk of the dissenting 39%, were opposed to the deal on several grounds, including insufficient disclosure of terms and conditions.

One shareholder said that after the meeting the potential tax benefits were also less clear for private investors. "If they convert most of the ICH shares into debentures, institutions will pay only 17,5% tax, but ordinary shareholders will pay the normal tax rate."

ICH's core asset is a 12,5% stake in Saturn Mining, in which Anglovaal and subsidiary Avmin hold 87%. Saturn's only asset is 50% of the post-tax revenue from De Beers' Venetia diamond mine, which totalled R231m in the six months to June.

To avoid taxation of the revenue before it is received by the Saturn shareholders, the ICH board and Anglovaal agreed to transform Saturn into a partnership. They also agreed with De Beers to transfer ownership of Venetia's mineral rights to De Beers.

This "acquisition agreement" includes references to an annexure to the agreement — to which ICH shareholders have so far been denied access. Chairman Dru Gnodde said he could not breach his undertaking to De Beers not to disclose the annexure's contents to ICH shareholders.

Dissident shareholders, led by ICH director Neil Cullinan and his son Mark, told the meeting it was untenable that they should vote on the board's decision without the benefit of access to all the terms and conditions of the underlying agreements which the board had signed with the Anglovaal group and De Beers.

Gnodde defended De Beers' reluctance to publish the annexure. De Beers was very conscious of its need for secrecy, and to keep things like this confidential. It had built up a superb (diamond) marketing operation by keeping knowledge about things like this confidential, he said.

Gnodde said it was too early to say

Continued on Page 2

ICH

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what tax benefits ICH would enjoy. "There is no immediate advantage," said Gnodde. "But we are endeavouring to receive tax-free income in future." He said ICH did not conduct any other business of substance, and that the board had resolved not to change that policy. He said the board would consider restructuring the capital, and that this would be done in an advantageous way.

"There are potential advantages, and no disadvantages."

When it appeared as if the vote was about to be taken, politician Harry Schwarz, who is also an ICH shareholder, asked for the meeting to be adjourned so that shareholders could appeal to the trade and industry minister, or examine their rights under the constitution. Gnodde said the vote had to be taken on a show of hands, at which point hordes of small shareholders opposed the motion, and members of the Cullinan camp accused opponents of "rent-a-crowd" tactics to avoid an adjournment. The vote was finally taken, but only after a debate on the wording of the motion produced an amendment. "We will be considering legal action," said Mark Cullinan.

Diamond deal eludes De Beers

ST(BT) 22/12/96

Top Russian official says a pact must be signed to avoid ruining the market, writes THABO KOBOKOANE

(216)

A CONCLUSIVE settlement with Russian authorities continues to elude De Beers in the wake of its threat to scupper the Russian diamond marketing agreement, worth R1,2-billion, unless Russia signs a new deal before the end of the year

De Beers said on Friday there had been "no official contact" with the Russian authorities following indications by Moscow that it would "co-operate" and sign a new diamond marketing agreement early next year

"We have had no official contact, but look forward to meeting Russian authorities next year," said Andy Lamont, De Beers spokesman in London

Lev Safonov, deputy president of Almazy Rossii-Sakha (ARS), Russia's biggest diamond producer and De Beers' main Russian supplier, told Interfax news agency that Russia would sign an agreement with all the main provisions of a draft agreed to in September

Shortly afterwards, Russian president Boris Yeltsin's spokesman said the government was not against a deal

Safonov said if De Beers stopped buying diamonds under the existing arrangements, trade would continue under different terms until a new agreement was concluded

During the negotiations, the Central Selling Organisation has continued to buy Russian gems under the expired contract Russia has been pushing for a deal that will allow it to sell more of its diamonds on the open market than the previous pact allowed

Russian Finance Minister Vladimir Panskov told Interfax that the new agreement must be signed "at all costs" to avoid ruining the world gem market

He confirmed that Russia was selling rough diamonds to De Beers at a discount, but said this was vital to cover advertising and organisational costs incurred by De Beers when selling Russian diamonds

De Beers pursued a hard-line attitude this week CSO managing director Gary Ralfe said "If they are not forthcoming, we will find other ways of doing business concerning Russian diamonds."

The old agreement, drawn up in 1989, expired at the end of 1995, but remained in force as a result of an interim memorandum of understanding signed by the two parties in February

Ralfe said De Beers would probably have continued with the interim arrangement had Russia not shown "cynical disregard" for it by leaking large quantities of gems onto the international market

"In addition to goods out of the stockpile we have also seen current production leaking out," Ralfe said

He said Russia had not delivered its full diamond entitlement to the CSO in the second half of this year "They have delivered less than what they were entitled to deliver in respect of 1996

"We have lost patience with them After January 1 next year we will obviously be free to negotiate with any Russian authority to protect our commercial interests," he said

"We will be free to buy Russian diamonds on the basis that we can agree — a willing buyer, willing seller arrangement without any obligation on our side as we did under the old agreement"

The ultimatum overshadowed De Beers' announcement of record rough diamond sales of $4,8-billion in 1996 — a 7% increase on 1995

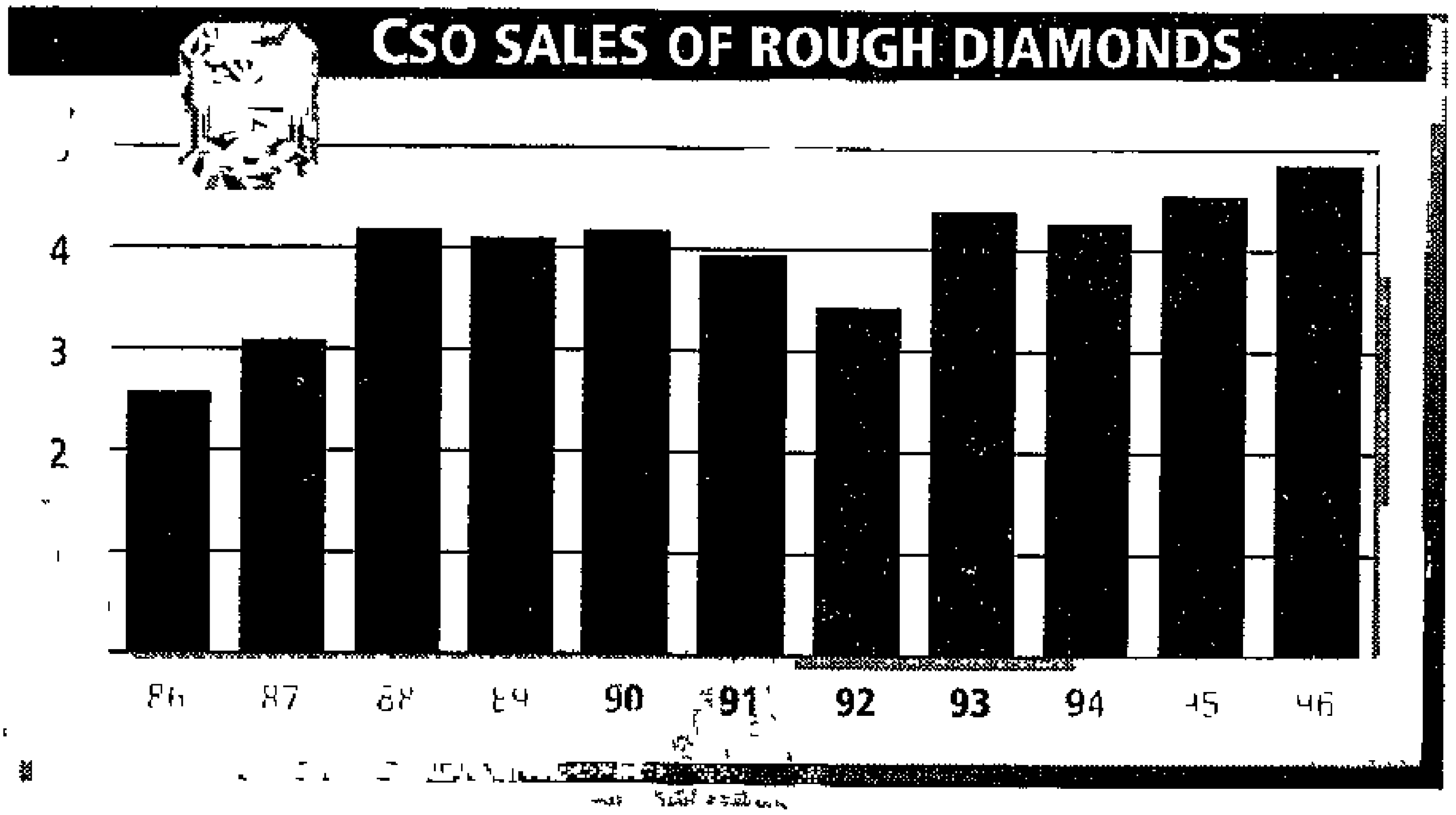
De Beers said sales would have topped $5-billion were it not for the leaks, which it estimates have run to $3-billion worth of gems during the last three years

Sales in the second half were 5% up on the same period last year despite "disruptions" in the market as a result of the decision by Australian diamond miners Argyle to market its gems directly to the retail trade and not via the CSO

De Beers said this year's record sales "reflected continuing strength in world retail demand for diamond jewellery, particularly in America"

It believes retail sales have shown positive growth in most countries, although the European market remains mixed

De Beers' ultimatum reflects the cartel's loss of patience with the stalling tactics employed by Moscow Analysts expect it will accept nothing but a definitive agreement with Russia



They point out that claims by Russia that it could do better by selling directly to the major retail centres could prove disastrously wrong

Roger Chaplin, an analyst at London-based stockbroker T Hoare & Company, said "the Russians will probably find they need De Beers more than De Beers needs them"

Russia will lose De Beers' commitment to buy diamonds worth $1,2-billion a year if the marketing arrangement is terminated

Chaplin said without the De Beers contract western banks would be reluctant to provide loans needed by ARS and the Russian industry to modernise their operations

He said De Beers would benefit from ending its contract by being able to buy the Russian diamonds at prices it could determine in direct negotiations with individual suppliers

Despite protracted talks, a conclusive settlement between De Beers and the Russians on the marketing of that country's rough diamonds has proved elusive Although an agreement was reached with ARS in September, approval from the Russian government was not forthcoming

Russia supplies De Beers with about 20% of its total rough gem sales, which in turn accounts for more than 75% of rough diamond sales worldwide.

ARS spokesman Valentin Logunov said it was ARS's task to guide the draft deal through the government

"We are doing this, maybe not as actively as we should — not because we are not interested, but because of the situation on the territory" He was referring to presidential elections set for December 24 in Sakha province, also known as Yakutia, where ARS has all its operations

Last month Yevgeny Bychkov, the head of the association of Russian Gem Producers, said Russia's diamond production had remained stable this year with a year-end total of about $1-billion worth of cut and polished diamonds expected

However, he noted that the Russian gem industry was capable of increasing output by about 30%

Russia prepares to sign new commercial export deal with De Beers

BD 31/12/96

(216)

RUSSIA would sign a new commercial export agreement with diamond giant De Beers in January, a Russian executive said yesterday

Lev Safonov, vice-president of the biggest Russian diamond producer, Almazy Rossii-Sakha (ARS), said Russian Finance Minister Alexander Livshits had seen to urgent preparation of documents needed for the deal, the ITAR-TASS news agency reported

He had said on December 19 that the new agreement would, to a great extent, be in line with the draft agreement signed last September but not yet approved by the government ARS is the only Russian company authorised to export uncut diamonds.

Failure by Russia to sign a new trade deal with De Beers by the new year will see the termination of a shaky interim accord, but a De Beers spokesman said yesterday the SA group expected an agreement to be reached next year

De Beers had given the Russian government until today to approve a draft agreement or face termination of the interim accord

The draft agreement contained provisions which would close the loopholes which had led to leakages in the previous sales agreement De Beers has estimated these leakages to be worth about $3bn in diamond sales over the past three years

The De Beers spokesman said it was unlikely that there would be any movement from Russia before the deadline and so the interim agreement was set to be ended. "It is looking unlikely given that there is only 24 hours to go De Beers will become a buyer of Russian diamonds on a willing buyer, willing seller basis "

However, he said Russia had indicated its willingness to sign a deal next year. "De Beers is still hopeful that the deal will be signed "

Livshits said Moscow believed a deal with De Beers was "essential" and could be signed next year

De Beers controls about three-quarters of the world diamond market and Russia accounts for about 25% of all rough gems De Beers sells. A five-year deal expired in December last year and was replaced by a memorandum signed in February this year

De Beers set the end-of-year deadline after being frustrated over Moscow's lack of response on the new trade deal and irritated by gem exports outside the interim scheme

Despite the deadline's likely expiry ARS, which is De Beers' negotiating partner and Russia's near-monopoly producer, has said Moscow will eventually negotiate a deal and quitting the cartel is not an option —Reuter

DE BEERS/CSO/RUSSIA (214)

COUNTDOWN

FM 3/1/97

As the clock counts down towards the end of the CSO sales agreement with the Russians, reaction from diamond markets seems to bear out CSO MD Gary Ralfe's prediction that his announcement "should not cause undue ripples "

So far the Russians have not responded officially to De Beers but instead have made various comments at industry meetings or to the media

John Helmer reports from Moscow that Russian deputy PM and Finance Minister Alexander Livshits told a gathering of international diamond manufacturers that an agreement with De Beers "will be signed," but that the terms should reflect "mutually fruitful relations "

Itar-Tass news agency reported on Monday that Lev Safonov, vice-president of producer Almazy Rossii-Sakha (ARS), commented that Livshits had overseen the urgent preparation of documents needed to sign a new agreement this month.

Completely overshadowed by Ralfe's ultimatum were excellent CSO sales figures, which beat all but the most optimistic estimates Rough gem sales for 1996 totalled a record US$4,83bn, beating the previous year's $4,53bn by 7%

The boost came in part from record sales of $2,1bn in second half 1996 despite disruption caused by Argyle's decision to break away from the CSO and market directly *Brendan Ryan*

With T&N's financial year ending on Tuesday this week, Waldburger would not quantify the earnings decline

One analyst believes full-year earnings could drop by about 30%, a figure Waldburger does not deny, though he notes "these matters are not cast in stone "

It was clear at the interim T&N was in for a tough year Debt was climbing, largely on the R35m acquisition of Connoisseur Auto Air Conditioning

T&N, along with SA's vehicle manufacturers, was also feeling the effects of lower import prices under the Motor Industry Development Programme and complained high wage settlements were frustrating productivity improvements

Difficult market conditions have now been compounded by production difficulties in T&N's friction division, forcing plants in Swaziland and Prospecton near Durban to import more expensive products to service markets

Though the order book remains strong and action is being taken to normalise production and costs, Waldburger says the effect of these "prolonged difficulties, with increased interest rates and higher debt for holding imported stocks, are such that the half-year indications of a 20% reduction in earnings for the full-year may now be optimistic "

At the interim long- and medium-term debt had doubled to R51,8m, raising gearing to 41% Finance charges doubled to R12,3m

Waldburger believes that, with the Connoisseur acquisition performing well and the recent disposal of T&N's industrial sealing division (an underperformer, sold last month for R18m), "we will be able to focus on our core business in 1997 This, with a reduction in debt, will place the group back on a growth track "

Though up from a low of R7,50 a month ago, the share, at R9,60, has dropped from R28,25 seven months ago

Waldburger believes press reports (notably in the *FM*) questioning the ownership and value of T&N's new composite deposition technology for the production of radiators could be affecting the price One claim is that T&N Holdings Plc has hijacked the technology from the SA group, prejudicing minority shareholders Waldburger insists T&N Holdings owns the technology

The main problem for T&N is to reduce debt and resume earnings growth Until there are clearer signs of recovery, prudent investors will probably remain wary *Shaun Harris*

ICH/SATURN/DE BEERS

BATTLING FOR LEGAL POINTS

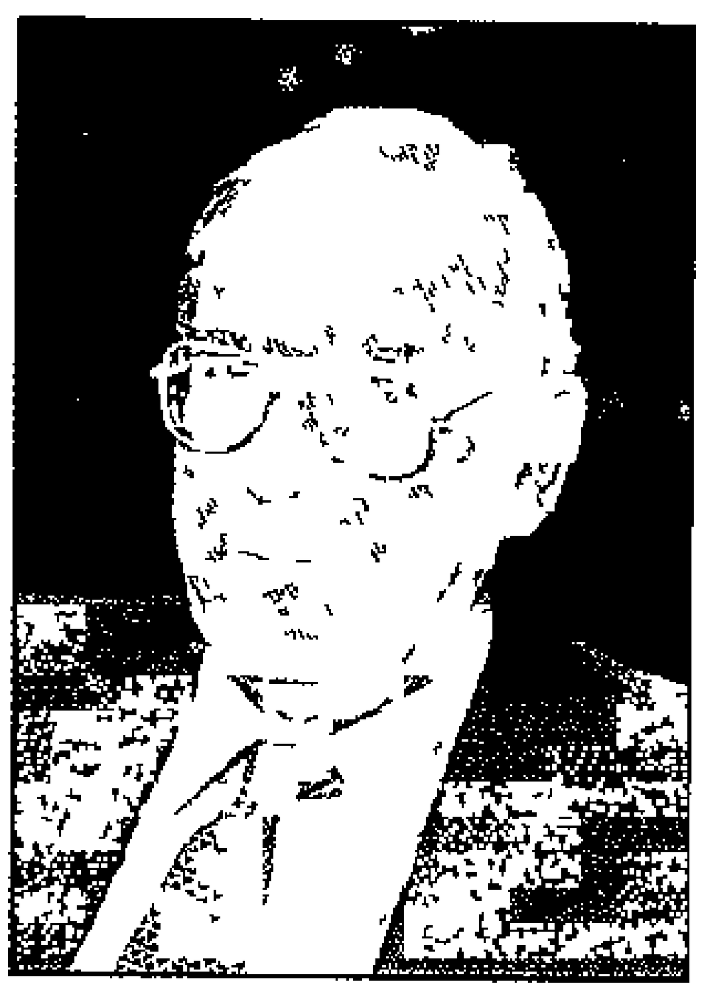
(216) fm 3/1/97

The lawyers had a field day at the ICH annual meeting and, though he lost the vote, Neil Cullinan's supporters scored plenty of points off Werksmans, the legal advisers retained by the ICH board

That could be crucial in what happens next Every indication is Cullinan intends bringing further legal action to overturn the vote by ICH shareholders in favour of changing the Saturn company into a partnership (*Fox* December 13 and December 20)

Werksmans were forced into a series of embarrassing rewordings of the resolution being put to the vote at the meeting before it could be voted on

Weighing in on Cullinan's side were attorney and former politician Harry Schwarz, representing Nedbank Nominees, as well as David Osborne SC who said he was there in his personal capacity as an ICH shareholder


Dru Gnodde

The debates highlighted broader issues at stake, relating to the nondisclosure of information to ICH ordinary shareholders, because of secrecy agreements between De Beers and Anglovaal concerning Venetia diamond mine

The mineral rights to Venetia are owned by Saturn which receives a 50% share of the mine's pre-tax profits ICH owns 12,5% of Saturn, the balance held by Anglovaal and Avmin These two companies proposed the restructuring into a partnership for tax purposes

Schwarz summed up the situation succinctly in a comment to Avmin MD Rick Menell during an adjournment "This is a lawyer's paradise, that's why I'm here "

The meeting, at Werksmans' offices in Parktown, had been loaded with junior office and clerical staff, each holding certificates for only a few shares in ICH The reason was to ensure the ICH board could block a motion to adjourn the meeting

The proposer of that motion was Schwarz who, after losing it on the show of hands, accused ICH chairman Dru Gnodde of organising his supporters from "rent-a-crowd" Gnodde replied they were legitimate shareholders and entitled to attend the meeting and vote

Others present who supported the ICH board were clearly under the direction of Werksmans partner, and ICH non-executive director, Archie Aaron As the crowd packed into the meeting room — which was inadequate for the numbers attending — a group standing in the central corridor shifted position on his (Aaron's) hand signals

Schwarz brought the motion to adjourn the meeting on grounds that ICH shareholders had not been given enough information for an informed decision He argued shareholders were not allowed to see the consent document annexed to the Saturn partnership agreement, by which De Beers agreed to the cession of mineral rights held by the Saturn company to the Saturn partnership

The ICH directors were not allowed, in terms of a confidentiality agreement with Anglovaal and De Beers, to make this document public Shareholders had to make do with the published opinions of legal experts retained by both sides

Cullinan contends the consent document strengthens De Beers' position and weakens that of Saturn The ICH board rejects this, saying it merely re-affirms rights De Beers has always held

Cullinan says the value of an ICH share cannot be accurately determined without information such as the value of unsold diamonds stockpiled by Venetia De Beers won't divulge this Schwarz wanted the ICH board to consider using both the new Constitution and an appeal under the Companies Act to force De Beers to provide the information

Gnodde was under pressure throughout the meeting, but was helped by his insistence that questioners present all their questions in advance That hindered the flow of the debate Schwarz said the normal approach is to deal fully with one issue at a time and then move to the next Gnodde refused to do this

The resolution was challenged by Osborne who told the meeting he considered it meaningless as worded in the circular Gnodde disagreed, citing the opinions of his legal advisers, but then Aaron belatedly realised Osborne had a point He intervened to inform Gnodde the wording did need to be changed

Gnodde denied an immediate request to adjourn the meeting because of this proposed change He pointed out the notice convening the meeting stated shareholders could pass the resolution "with or without modification "

Osborne slaughtered Aaron's first attempt at rewording the resolution, saying the meeting would have to be adjourned because the new version materially changed the fundamentals shareholders were being asked to vote on

Gnodde took time out to caucus with Aaron and other Werksmans staff in a separate room They eventually found a version which could be voted on, but only after further revisions in the meeting as well as a few misunderstandings on the ICH side as to who precisely was proposing it and who was seconding it, and some barbed dialogue between Schwarz and a Werksmans lawyer

The decision went in favour of the ICH board with 5,9m shares for and 3,8m shares against That indicated Old Mutual — with about 25% of the company or 3,45m shares — must have voted in favour but, interestingly, the favourable vote should have been even higher

ICH director Julian Koch has stated previously his family controls around 25% of ICH Assuming both the Koch family and Old Mutual voted in favour, there should have been around 6,9m shares for the resolution

The Cullinan family only controls

P.T.O.

about 10% of ICH — equivalent to 1,38m shares — which means Cullinan has found considerable support elsewhere

Cullinan said afterwards he hoped it had shown he was acting in his interests as a long-term ICH shareholder and not as a "greenmailer" to extract compensation from Anglovaal as had been suggested He declined to comment on the size of his legal bills *Brendan Ryan*

DE BEERS/CSO/RUSSIA

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FM 3/1/97

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T&N HOLDINGS

Less optimistic

A warning from T&N Holdings, when interim results were published in August, that full-year earnings would probably repeat the first half's 20% decline "may now be optimistic," says Ted Waldburger, CE of the Durban-based automotive component maker

With T&N's financial year ending on Tuesday this week, Waldburger would not quantify the earnings decline

One analyst believes full-year earnings could drop by about 30%, a figure Waldburger does not deny, though he notes "these matters are not cast in stone "

It was clear at the interim T&N was in for a tough year Debt was climbing, largely on the R35m acquisition of Connoisseur Auto Air Conditioning

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KOLOSUS ~~188~~ ~~187~~

Beset by demons

FM 3/1/97

A year ago Kolosus' share price was 600c It has since plunged 52% to 286c despite the ostensibly sensible Silveroak acquisition Why? In essence, it has been plagued by controversy

On the face of it, the takeover meant the group could rationalise its old main business of meat processing and distribution and, in vertical diversification, shift focus to the leather industry

That was MD Tito Vorster's master plan He has stuck to it and it seems to be working But a number of issues, some self-inflicted others apparently unforeseen, have hindered progress

First there was hysteria about the effect "mad cow" disease would have on beef sales Last March the scare helped to depress the share price, which had then just tipped below R6 Kolosus dismissed the fears by confirming that 60% of sales came from leather and 40% from meat, only half of which involved beef

FINANCIAL DRAG

Six months to	Nov 30 1995	May 31 1996	Nov 30 1996
Turnover (Rm)	936	872	1 031
Pre-interest profit (Rm)	42,3	40,2	50,9
Pre-tax profit (Rm)	22,5	19,3	22,2
Attributable (Rm)	(5,1)	8,9	24,0
Earnings (c)	37,1	33,3	40,0
Dividends (c)	11,0	12,0	3,0

In August, results for the year ended May 31 1996 not only showed a major, once-off, reconstruction cost of R28,2m, they also highlighted a 92% increase in finance charges These cut net income from R46,3m in 1995 to R14m Gearing rose to an excessive 1 1

Within days came news that the Competition Board had begun a formal investigation of the Silveroak deal — after approving it nine months earlier

Another bombshell arrived last August One of the world's biggest automotive leather processors, Pennsylvania-based Seton, was to bring a US$100m action against Silveroak in the International Court of Arbitration in Paris

In 1994, before Kolosus entered the picture, Seton bought into a joint venture in a Silveroak subsidiary — Ladysmith Leathers (LL) It created covenants to prevent LL from competing with itself

Indian tender reversal a setback to De Beers' plans

(216) BD 3/1/97

Patrick Wadula

DE BEERS has suffered a setback in its plans to prospect for diamonds in Madhya Pradesh province in India, after the provincial government backtracked on a decision to allocate the company a lease for the region

The province has decided to amend its tender for the lease, and is expected to call for a new tender shortly following widespread protests by the opposition Hindu nationalist party, Bharatiya Janata Party (BJP) against De Beers receiving the lease. The BJP staged a protest in parliament late last year against the presence of foreign mining companies and demanded the lease be withdrawn

De Beers spokesman Andrew Cumine said yesterday the group was waiting for a new tender to be called for by the provincial government after the province had apparently "changed its mind"

He said De Beers had never officially been awarded the lease but had received "formal authorisation" to mine in the province.

The new tender would be limited to local Indian companies, which could, however, team up with foreign mining groups.

De Beers has an agreement to set up a joint venture with India's Reliance Industries, said to be estimated at $30m, to mine diamonds in the region "De Beers is willing to enter into a long-term agreement to search for and develop diamond mines," Cumine said

De Beers' original bid for the diamond lease followed the Madhya Pradesh government's global tender in 1994 Reports said De Beers had been one of three companies shortlisted in this tender

Cumine said De Beers was also considering prospecting for diamonds in other regions in India, including Orissa and Andhra Pradesh provinces

Madhya Pradesh chief minister Shri Digvijay Singh held talks with geologists and De Beers management at the end of October during a week-long visit to SA

The meeting included discussions with the company for prospecting and mining in Madhya Pradesh, which has proven presence of Kimberlite pipes

Meanwhile, the Financial Times of London reported yesterday that De Beers terminated its $1,2bn a year diamond marketing agreement with the Russian government on January 1.

The termination means De Beers is no longer committed to purchase Russian diamonds at a predetermined price, regardless of market conditions. De Beers will continue to buy diamonds from Russia, but the price and quantity will depend on the market.

The newspaper said De Beer's decision to end the 35-year-old arrangement reflects the company's anger at the Russian government's prolonged failure to sign a new marketing agreement.

The previous agreement with the Russian authorities formally expired at the end of 1995 Since then De Beers has continued to buy Russian diamonds under the terms of the expired agreement

De Beers nudges Russia to new deal

(216) CT (PR) 6/1/97

Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — Diamond giant De Beers is actively buying Russian diamonds on the open market after the expiry of its marketing agreement with Russia on New Year's Eve, a company spokesman said last week

"We were not prepared to buy poor-quality Russian diamonds, and we are now buying on the open market," Andrew Cumine, a De Beers spokesman said.

De Beers and Russia have been in intense discussions over the renegotiation of the five-year marketing agreement which was rolled over month-by-month last year

This so-called "Angola option" is a way of putting further pressure on Russia to sign a marketing agreement with De Beers and will "focus the minds at Almazy Rossii-Sakha" (ARS), the Russian diamond company, Cumine said

De Beers still hopes a new agreement will be signed "There have been encouraging noises from the Russian side that they want to sign, and De Beers does want a new agreement"

Russia will be under pressure to seek a compromise with De Beers as the proposed $500 million foreign funding for new diamond mining projects organised by NatWest, the British bank, will be under threat An agreement was a prerequisite for the loan Although De Beers and Russia signed a memorandum of understanding in February last year and concluded discussions with ARS in September, both parties are still awaiting approval by the Russian government

James Tomlins reports from Paris that according to the weekly Le Point the negotiations between De Beers and Moscow were "doomed to failure"

"Instead there is talk of an informal alliance between Australia, Canada and Russia in the event of a breakdown," the publication said "Maybe divorce between the two partners is in the air, or maybe Moscow wants to make De Beers sweat in the hope that it will obtain a more favourable offer," Le Point said

DE BEERS/RUSSIA

WHY DE BEERS WILL WRESTLE THE BEAR

(216)

FM 10/1/97

End in sight for Russian stockpile

Looking back on January 1, when De Beers ended the diamond marketing contract with Russia, the most apt comment may well turn out to be from Mark Twain "The report of my death was an exaggeration "

This was the event which, 12-18 months ago, was regarded by most analysts as heralding the end of the diamond cartel and perhaps even the demolition of De Beers — should it ever take place

Judging by the current feeling among most analysts, and the strength of De Beers' share price, the earlier prophets of doom have been relegated to the status of street corner cartoon characters bearing placards proclaiming "The end of the world is nigh "

If you believe the adage that the market always gets it right, then De Beers is winning this one Either the Russians will return to the fold or the new free-market order is going to work out better for the cartel than the previous contractual one

De Beers' share price was R132 on the JSE when CSO MD Gary Ralfe announced on December 18 that the marketing arrangement with the Russians would end at midnight on December 31 1996 Over the next two trading days, the price dipped to R121 — but then recovered to close at R135 on December 24 And many of the diamond industry's worst fears had materialised

These included the Australians breaking away from the CSO and setting a precedent for BHP coming on stream with its Lac de Gras mine in Canada There was continued anarchy in sales of the flood of diamonds coming out of Angola — now worth US$750m/year — as well as tough market conditions

Protests from the trade indicated the pain some diamond traders and cutters were feeling in squeezed profit margins as De Beers boosted the price of gem quality rough diamonds, though polished prices did not keep pace

So what's changed to justify the relaxed feeling about the end of the Russian contract and the apparent loss of control by De Beers over a $1bn chunk of the diamond market? After all, there is strong demand from the trade for diamonds of the types and quality sold by the Russians

Key fundamentals appear to be expectations of falling Russian production, expansion of De Beers' own controlled production, an end in sight to the Russian diamond stockpile, and forecasts of continued good growth in world demand for diamond jewellery, particularly in the US

Market psychology is working in De Beers' favour There's a feeling among analysts that De Beers is back in the saddle after 18 months of passivity, in which it appeared that the Russians had the upper hand Ralfe said last month that De Beers had put much effort into preparing the diamond market for the ultimatum to the Russians

As the CSO sales figures for 1996 revealed, the market for rough diamonds is in pretty good shape, showing real growth, and it's expected that this will continue during 1997 and probably longer Sales of rough diamonds rose 7% to R4,8bn last year (from 1995's R4,5bn) and would probably have exceeded $5bn without the Russian problems

Standard Equities analyst James Picton is looking for 1997 CSO sales around $5,2bn That would be up 8% — further real growth, which should benefit profit margins on De Beers' diamond account

G O'Flaherty analyst Des Mayers says that, for the diamond business to continue showing real progress, growth in the US retail diamond market must continue and extend among major industrialised countries

The Japanese market, in particular, needs to recover The CSO says that during 1996 "Japanese sales showed signs of recovery in a difficult economic environment "

Still, the latest outlook on the global economy seems to be that OECD nations are heading for one of their best periods of gently accelerating growth and declining inflation Economic indicators from the US look good The US consumer confidence index rose to 113,8 in December from 109,5 in November as the economy continued into its sixth year of expansion, with interest rates low

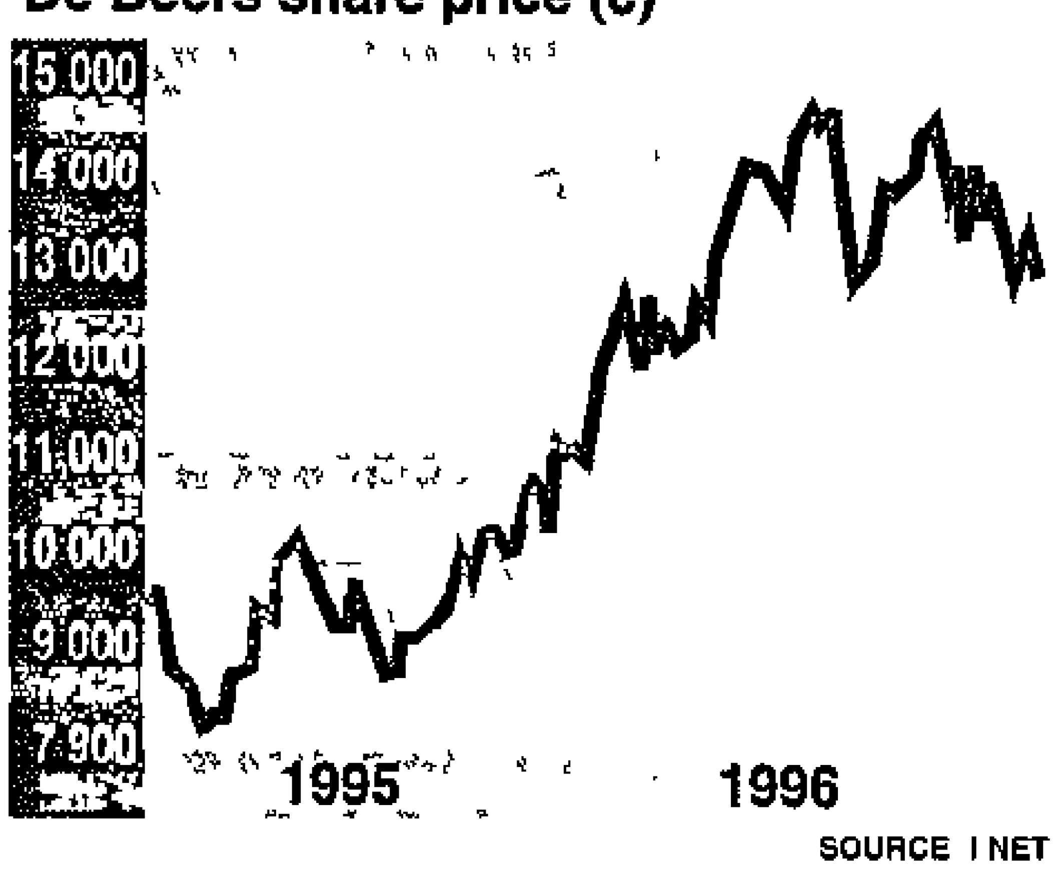
But the critical factor is the future supply of diamonds to the market from current Russian production and the Russian stockpile This is where the danger lies of an oversupply, which would ruin the traditional "orderly" CSO diamond market Ralfe emphasises the falling trend in Russian diamond production and De Beers' expectations that this will continue

"Russian production is on a plateau of about $1,2bn/year That plateau is substantially down on sales at the end of the Eighties," he says "I don't foresee any growth in Russian production that will disturb the current equilibrium in the market I believe there will be a race on for the Russians to ensure that production from the developing Jubilee mine will be sufficient to make up for the declining output from the Udachnaya mine, which produces more than 80% of Russia's output "

Picton is blunter in his assessment, using estimates on Udachnaya's output published by TerraConsult of Antwerp "Udachnaya produced 11,8m carats in 1995 and its output is expected to fall to 2m carats by 2000 Estimates are that

DEFYING THE CYNICS

De Beers share price (c)

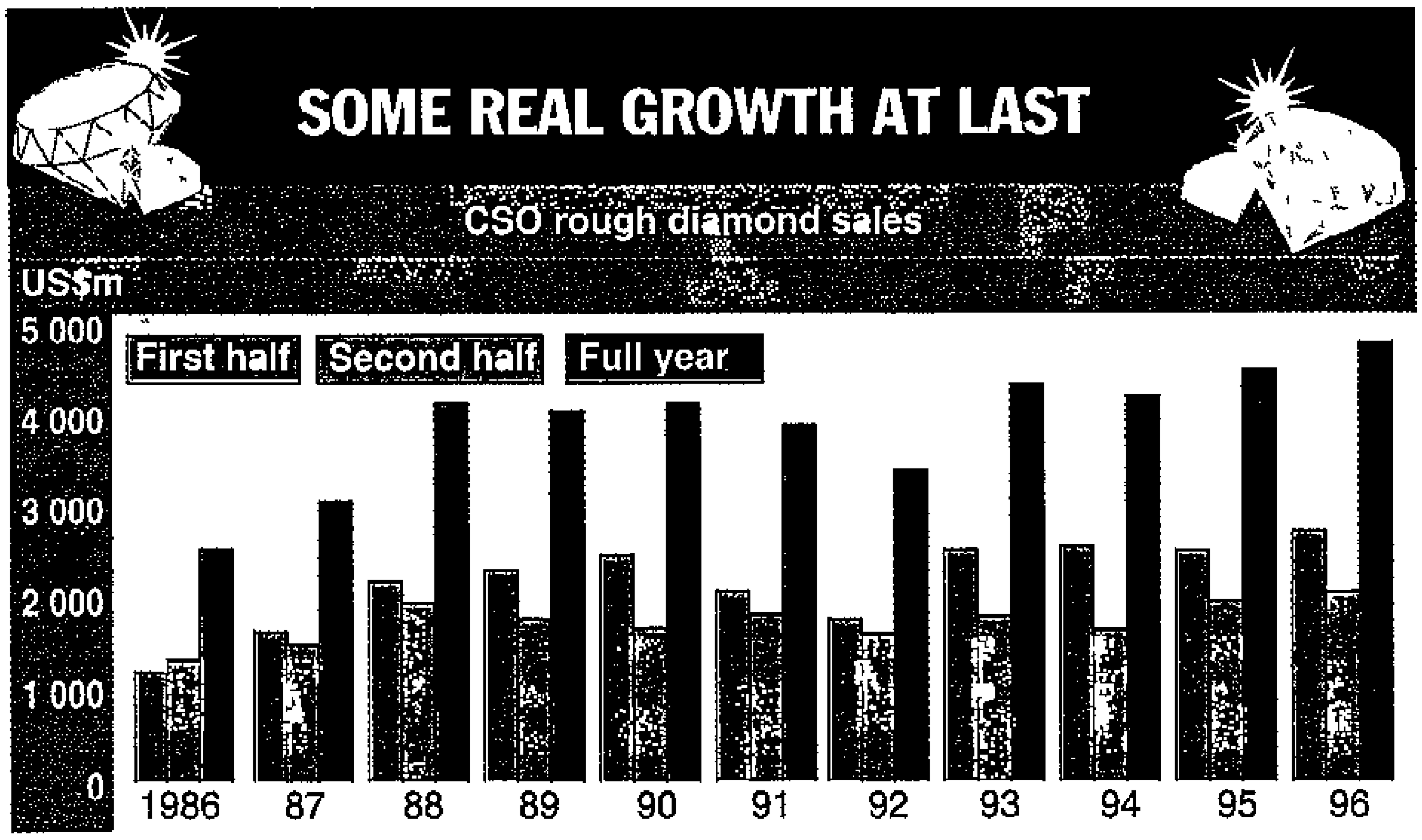


SOURCE I NET

Udachnaya's grade is 131 carats/100 t of ore, with a value of $90/carat Jubilee, the mine which will replace Udachnaya, has a grade of 75 carats/100 t of ore at $70/carat," says Picton "Jubilee's grade is 43% lower and the carat value of its production 22% lower To replace Udachnaya's output by 2000, Jubilee has to shift 16,8 Mt of ore to produce 12m carats of diamonds

"That means developing a mine which will treat an amount of ore more than the combined through-put of Botswana's Jwaneng and Orapa mines It's almost certainly not possible," says Picton

Then there's the sales from the Russian stockpile leaked into the market outside of the CSO De Beers chairman Julian Ogilvie Thompson last year blamed these for the poor state of the diamond business The De Beers view is that the Russians are running out of diamonds



"The Russians," says Ralfe, "have been running down their stockpile at a rate of around $1bn/year for the past three years They must have greatly depleted their stockpile

"We don't know what the balance of that stockpile is, but we believe it's short on gem quality diamonds and it's long on technical diamonds of the kind which can only affect the Indian market (for cheap goods) One reason that the markets are sanguine now is that fears that we were all going to be engulfed in sales from the Russian stockpile have enormously receded There's a realisation that the Russians won't destroy the diamond market"

Says Picton "I believe that the Russians will run out of stocks by end-1998 and shortages of diamonds will develop by 2000 — meaning there will be room for new producers, such as the Canadians, coming in — and there will be no more talk of the CSO being under threat"

Mayers is more cautious, saying that there may be future shortages in certain diamond categories but not across the board

"Nobody has accurate figures on the size of the Russian stockpile, so you don't know when sales from it are going to end If they're coming to an end, De Beers will be OK," says Mayers "I believe De Beers will cope with the situation and, if you look at the share price movements, the market is telling us that this dispute is going to be settled"

Most analysts believe De Beers has made the correct move in ending the Russian contract As Ralfe says, the cynical view is that there's not been a real contract between the CSO and the Russians for the last two years anyway, so not much would change

Picton believes that De Beers has strengthened its position by ending the marketing arrangement and, ironically, De Beers seems to be following advice from one of its greatest critics — flamboyant diamantaire Martin Rapaport, who runs a major diamond trading business in New York, Antwerp and Tel Aviv

At the SMK Securities diamond conference in Johannesburg last year, Rapaport said "Russia is just like Angola, only bigger There are all these people trying to rip you off That's all you need to know"

De Beers now intends treating Russia as it does Angola It will buy what it wants of Russia's diamond output on the open market As Mayers points out, Angola has gone relatively well

Picton says that, using the Angola option, De Beers will buy the Russian diamonds it wants on market terms, without being forced to pay $100m/month in terms of the contract, for which they were not getting fair value

The CSO says that the Russians have been retaining better quality stones for their own cutting industry, or to leak on to the market outside the CSO, and not delivering a representative portion of their output to the CSO under the contract

If the CSO no longer needs to buy unwanted diamonds from Russia under the contract, that should ease the problem of its mounting stockpile CSO diamond stocks hit $4,2bn at end-1995 Analysts expect the 1996 figure will be higher

One worry about De Beers has been its falling share of world diamond output That's why last year's announcement of expansions in Botswana, linked to the renewal of the CSO's marketing contract with Debswana for another five years, is strategically important

Orapa is to double production which will add around 6m carats/year by 2000

Picton says that the De Beers/Centenary portion of CSO supplies will rise to 45% of total world diamond production value in 2000 from 43% in 1995 This is despite new producers — such as Canada's Lac de Gras mine, due to start production in the second half of 1998 — reaching full output of 3m carats/year

A pressure point on the Russians, given their falling output, concerns the fate of a $500m loan which producer Almazy Rossi Sakha (ARS) is trying to raise through NatWest to develop its mining operations That cash is unlikely to be forthcoming without a contract between Russia and De Beers

There remains the question of whether De Beers is now worth buying at around R132 Mayers believes it is "On a relative basis compared with other large market cap SA stocks, De Beers shares are still attractive It's about to report strong growth for 1996 and there should be reasonable growth in 1997"

The sceptics, and there are some, believe that problems in the market mean De Beers should be viewed as a trading stock, not an investment counter — sell it above R140 and buy below R125 They are justifiably concerned about the low profit margins on De Beers' diamond account and the high diamond stocks But right now the markets are backing De Beers to succeed *Brendan Ryan*

De Beers welcomes inquiry

CT (BL) 16/1/97 (216)

PAUL HARRIS

Johannesburg — De Beers said yesterday that it welcomed a government commission of inquiry into the South African diamond industry.

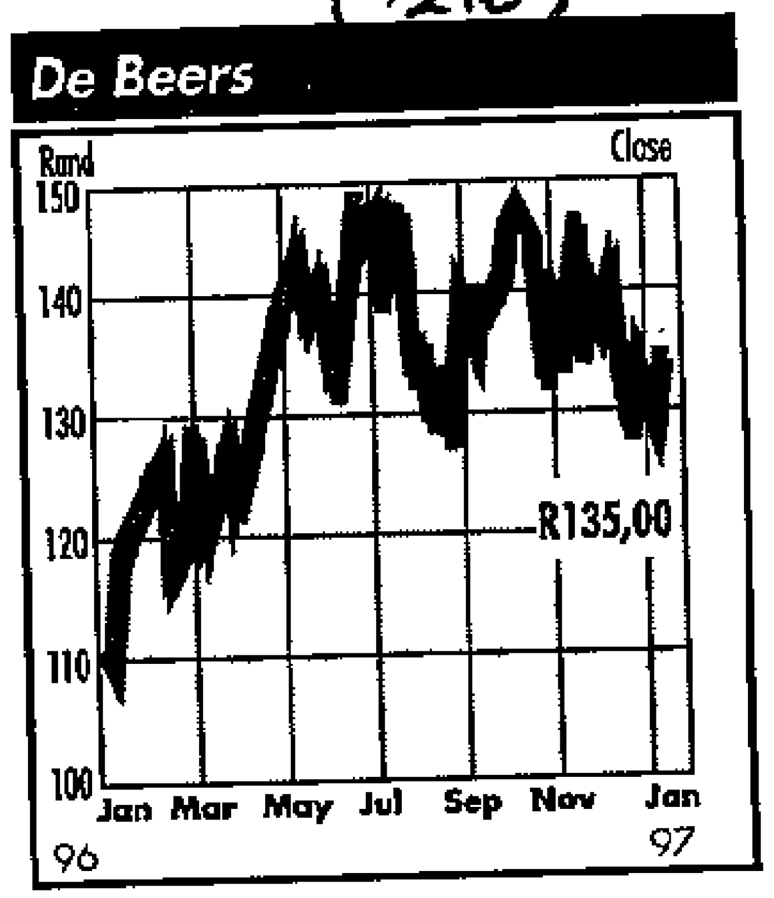
The intention to set up the inquiry was announced early last year, but yesterday the government announced the commission would start sitting on February 19

The inquiry "will certainly help clarify certain issues", a De Beers spokesman said, adding that De Beers was willing to help the inquiry in any way if it was requested to do so.

The commission, chaired by Justice Dennis Levy, has a broad mandate of issues for discussion and investigation.

These include diamond industry legislation, the role of the South African Diamond Board and the effectiveness of measures to stop illegal diamond purchases

The commission will also look at the supply of rough diamonds to the local processing industry, the industry's contribution to state revenue and job creation, international models relevant to the local industry and the influence of foreign companies and international diamond combines



Bob Klaver, the commission's secretary, said the inquiry was set to last about six months. After its conclusion it would make recommendations on changes to the mineral and energy affairs minister

"The inquiry is friendly (towards the industry) but we will try to change things wherever necessary it might suggest changes in tax, the way people get licences, anything really," he said

The last such inquiry into the South African industry was in the early 1970s, and Klaver said the government felt another commission was long overdue

"It has been about 25 years since there was an inquiry into the industry," Klaver said

He added that the commission had written to all sections of the diamond industry asking them to submit presentations on any of the listed issues

Requests had been sent to all producers, cutters, unions and dealers, including De Beers.

De Beers controls about three-quarters of the world diamond market and is locked in a dispute with Russia over a new trade deal. — Reuter

Sell-off talk unnerves Aries shareholders

MARC HASENFUSS

CAPE EDITOR

Cape Town — Aries Packaging, the niche corrugated container, paper core and tube manufacturer, oscillated on the JSE this week amid renewed speculation that a founding shareholder was set to sell off a major stake

On Tuesday this week, Aries touched a new low of 184c but bounced back to 200c yesterday in active trade

Dieter Neckel, the managing director, said he was shocked by the share's drop, which has markedly narrowed the premium to its past stated net asset value of 137c a share

"From an operational point of view there's no reason why the price should be weakening so much," he said.

Aries has chalked up an enviable profit record since listing in 1987, reflected in a steady growth in the share price from about 60c in 1992 to a high of R4,50 last year

Late last year, Aries retracted a cautionary announcement which purportedly related to the sale of Eric Kohler's 31 percent stake in the company Negotiations were apparently under way with Doug de Jager's Lenco Holdings, which has sizeable local and international packaging interests

Sources were adamant that Kohler, 74, was keen to sell his stake in Aries to diversify his holdings

However, Neckel emphasised that no negotiations "to his knowledge" were under way with potential buyers

"There was an offer to buy Kohler's stake last year, but this came to nothing In any event, why should the sale of this stake adversely impact our share price? it's simply an investment decision"

Kohler and Neckel started Aries Packaging in 1980

Diamond miners set up umbrella association

BUSINESS REPORTER

The holders of marine diamond mining concessions in Namibia have established an association to act as a single body in discussions of mutual interest with government authorities.

Members of the Namibian Marine Diamond Mining Association include Ocean Diamond Holdings (ODM), the Namibian Minerals Corporation (Namco), De Beers of Namibia (Namdeb) and the Canadian-based Diamond Fields International (DFI)

The aim of the association is to build a "mutually rewarding" relationship among members and between the association and the Namibian government

ARG 28/1/97

Previously, these companies approached the Namibian government separately, and often with the same requests. With the formation of the association, matters such as environmental management, safety and diamond security can be discussed in one forum

The association has already approached the Ministry of Mines in Namibia to nominate a government representative to the association in order for them to further enhance their relations with the local and government authorities

(216)

"Marine diamond mining companies will no longer need to talk to the government on an individual basis on matters of mutual interest, but will now be able to talk with a united voice with regards to marine diamond mining," Andre Louw, chairman of the association and managing director of ODM said

The association was not in opposition to the Namibian Chamber of Mines, but was a specialist group operating within the mining industry, he said.

DIAMOND TRADE

INTRIGUE SMEARS THE POLISH

(216) FM31/1/97

The secretive diamond industry will be shaken by a series of startling revelations in the Rand Supreme Court this week about its business practices

Diamond cutter Roger Lappeman is seeking US$12,6m in a negligence claim against his insurance broker, the MIB group, which had insured him with Lloyd's of London

Deals in the diamond trade throughout the world are traditionally concluded by a shake of the hand and the words "Mazal U'Bracha" — Hebrew for "Good luck and go well " Written records are often scant, which landed Lappeman in trouble when he made a claim against Lloyd's Merrett underwriting syndicate in 1993 for about 64 800 diamonds stolen from his premises in Pietersburg and Randburg

Specific Conditions, Clause B, of his policy stated that the assured must keep "detailed records of all sales, purchases and other transactions and that such records shall be available for inspection by the underwriters in case of a claim "

Merrett's refused to settle the claim on the grounds that Lappeman could not produce records required to be kept under Clause B Judge Plewman agreed, dismissing the claim

Now Lappeman is suing his SA broker, MIB, for negligence in failing to inform the underwriters of the informal record-keeping practices of the industry, and for failing to point out Clause B to him

There is a dramatic background to the case including death threats, an undercover operation by a former Civil Co-operation Bureau (CCB) agent and a claimed retributive move by a senior De Beers employee that could have wrecked the career of Lappeman's trial attorney, Selwyn S Cohen

The death threats were made to Lappeman and Cohen at the time of the 1993 trial De Beers released its confidential "sightholder's dossier" on Lappeman to the underwriters, Lappeman and his legal team applied — unsuccessfully — for an order forcing De Beers to release the dossiers revealing their dealings with 81 other sightholders

De Beers' financial director Bertie Lincoln said in an affidavit that Lappeman was attempting to "intimidate sightholders with the threatened publication of documents which contain the most intimate and confidential details as to their modus operandi and their relationship with the De Beers companies "

Now Cohen reveals "It was during the final stages of that bit of litigation that I received a death threat I got an anonymous call at my office to tell me that I wouldn't be seeing the weekend out It was very unpleasant I went into a state of shock I then went to the Randburg police station and opened a docket I wanted it placed on record "

Lappeman says the death threat was passed to him by a member of the Diamond Club "I was told that if I didn't stop I would end up dead "

The club is an exclusive worldwide organisation of diamantaires which looks after member interests It has its own arbitration to whom disputes are made — in essence an internal supreme court

Roger Lappeman *told if I didn't stop I would end up dead*

The undercover operation was conducted by former CCB agent Abram "Slang" van Zyl On the advice of MIB, Lappeman retained him to investigate diamond thefts from his premises The CCB was a shadowy arm of the apartheid government's Defence Force, which had set up Van Zyl's private eye company, Incom Investigations, with CCB front money

Van Zyl personally apprehended "Lizzie," one of Lappeman's female employees who worked in the Pietersburg factory, with diamonds from the factory In classic CCB style, she was "turned" and in return for an offer of indemnity gave the investigators leads on the 250-strong network of thieves who had been plundering diamonds from the Lappeman operation over a two-year period

Despite the indemnity offer, Lizzie (Elizabeth Nchabaleng) found herself charged with theft A conviction would have assisted Lappeman's claim against the underwriter However, when Lizzie appeared for trial at Pietersburg Regional Court on August 18 1993 she had a dazzling array of legal talent which secured her acquittal

The humble Lizzie had as her advocate Michael van der Nest, who was junior counsel representing the underwriters and striving to prove that there had been no theft of diamonds from Lappeman for the pending Supreme Court case

Also in court was Manley Kapelus, senior partner of high-powered Johannesburg attorneys Deneys Reitz — who was the underwriter's attorney

Says Cohen now "Lizzie, an indigent unemployed person, had the best legal representation in the country And they happened to be the legal representatives of the insurers For the insurers to be defending the accused just didn't make sense I was absolutely horrified "

Kapelus says "Lizzie was trapped by Slang van Zyl She said she stole diamonds They wanted to use that evidence to explain this enormous loss

"We funded Lizzie's defence and made our junior counsel available He defended her and she was acquitted But we were not her attorneys "

Cohen is no longer Lappeman's attorney After they lost the 1993 case against Merrett, he was offered what he describes as "the most wonderful position as attorney to the diamond fraternity" — including the Diamond Club of SA and the Master Diamond Cutters Association "I gave up my practice and handed all my work to various colleagues," he says

"The day before I was to join these organisations an official of the Diamond Club Secretariat was called by a senior employee of De Beers and told in no uncertain terms that if I was given that position there would be serious repercussions The Diamond Club official phoned me and said 'You can't start tomorrow '

"You cannot believe what this case did to me, it destroyed my livelihood It took me a while to get back on my feet "

As for the key issue — whether or not it is the accepted practice in the diamond trade to do business on a handshake with a minimum of written records — MIB's Alec Holmes appears, from the pleadings, currently lodged with the court, to say that it is not So he may find himself in some difficulty when a video tape of a conversation between himself, Lappeman and Frank Garrett (a former investigator with London placing broker Minet) is played to the court

On the video, made on March 5 1991, Garrett referred to the common practice of diamantaires worldwide to hold both "official and confidential stock " The video was set up by MIB for Garrett to take to the London underwriters to assure them that this was a genuine claim

And Holmes, a former captain in the police's diamond and gold squad, told the camera "They (the underwriters) say the client has not complied with the conditions of his policy and the policy has been cancelled I honestly feel this is a total miscarriage of justice

"I am *au fait* with the records of this (Lappeman's) company I say their records are as good as the other diamond factories in SA and, I'm assuming, in the world, and they therefore are not in breach of their policy and do have a claim in terms of their contract "

In a telephone conversation between Lappeman's advocate Chris Eloff and Garrett, tape-recorded on November 12 1992 by Lappeman's legal team in preparation for a witness statement — and also to be submitted to the court — Garrett talks openly about "unofficial stock," which he said would not play any part in the underwriter's assessment of a risk before accepting business

Eloff, son of Judge President Justice Eloff, asks him "On the occasions that you did discuss it with Merrett and disclosed to them that there was unofficial stock among the globular account, did it weight? Did it make an impact?"

Garrett "Not at all They were so used to it It is a normal method of working in the diamond industry and they would not react to it at all "

Lappeman recounts on the tape how he complained that De Beers placed low quality stones in the sights offered to him He says De Beers also reduced his sight from 30 000 carats to 15 900

At one stage Garrett was to be a key witness for Lappeman But after a visit to his UK home by an unidentified man he announced he was no longer prepared to assist

A De Beers spokesman says "In the light of the case coming up in the Supreme Court between Mr Lappeman and his brokers we feel that it is inappropriate for De Beers, as an outside party, to comment " *Jack Lundin*

IDU GAS FIELD

GETTING ALL FIRED UP

FM 31/1/97

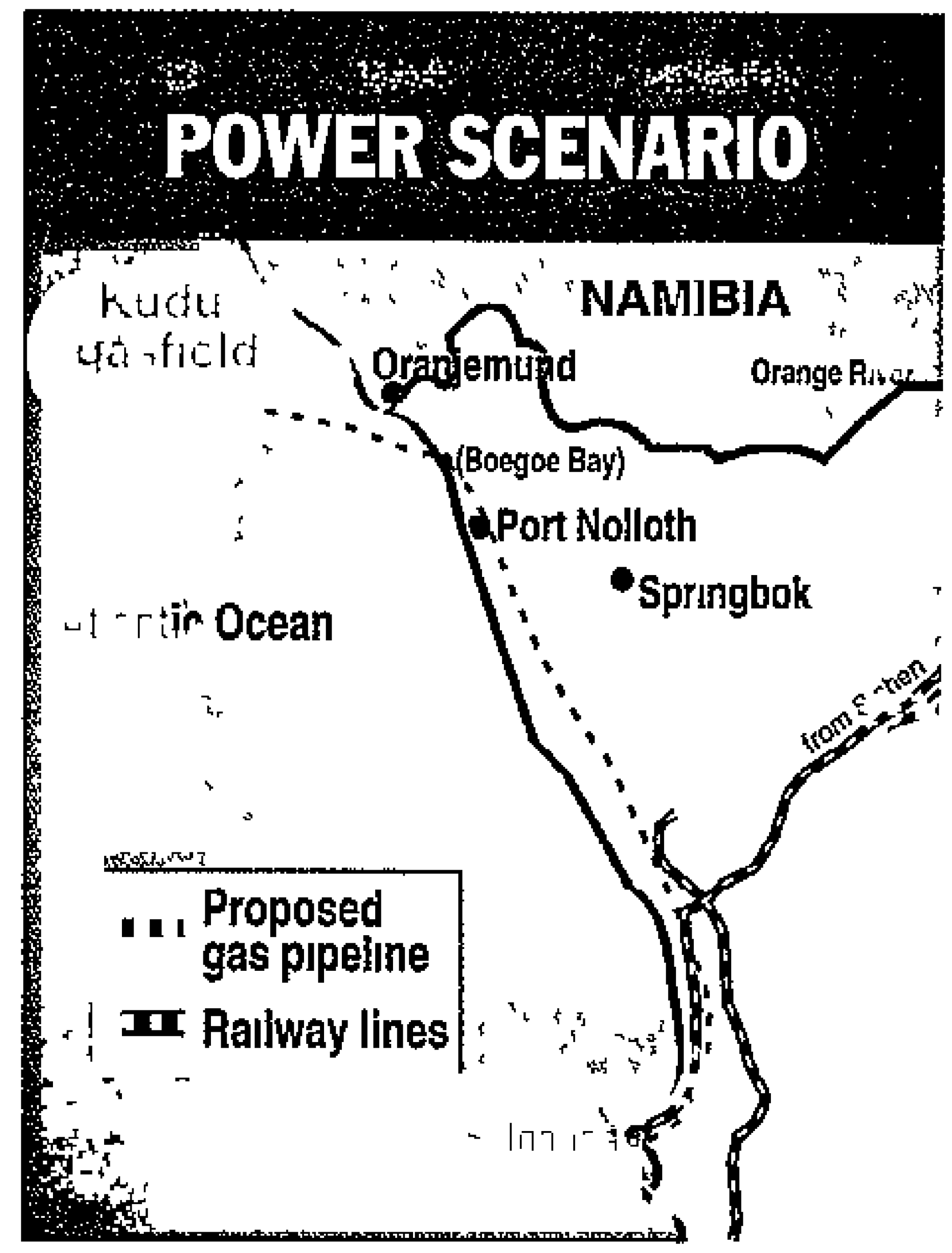
The developer of the Kudu gas field off the Namibian coast, Shell Namibia, says three huge projects could be in the offing once reserves have been proven

Shell Namibia GM Ger Kegge confirms talks have been held with the Industrial Development Corp (IDC) on the possibility of a gas-based iron plant either in the Northern or Western Cape

Two other projects — a gas-fired power station in Namibia and a contract for the second phase of Saldanha Steel — have also been mooted

Kegge says "While the IDC has pointed us in the direction of a direct reduction iron plant as a possible option for Kudu gas, they indicated they might be interested if we develop the field The possibility of IDC taking equity in any possible iron plant has not been discussed

"Feasibility of the gas reserves must first be proven — it is early days yet and we are now determining volumes, cost and possible prices "



IDC GM Ted Droste confirms "exploratory discussions" with Kegge about the possibility of a gas-based iron plant, but adds that "there has been nothing firm or definite — everything will clearly depend on the economics of any possible project, especially in the light of keen competition from countries such as Venezuela and Australia, which both have vast gas and iron ore reserves

"But anything is possible, once Shell crosses the first hurdle and proves sufficient gas at an economical price The ball rests in Shell's court to prove volume and also offer economically priced gas to allow the IDC to consider any possible project discussions No studies have been undertaken from our side yet and we want to hear from Shell what they can offer before the IDC will look at any options "

Saldanha Steel has also expressed an interest in using gas for the second phase of its coal-based Corex plant at Saldanha Bay

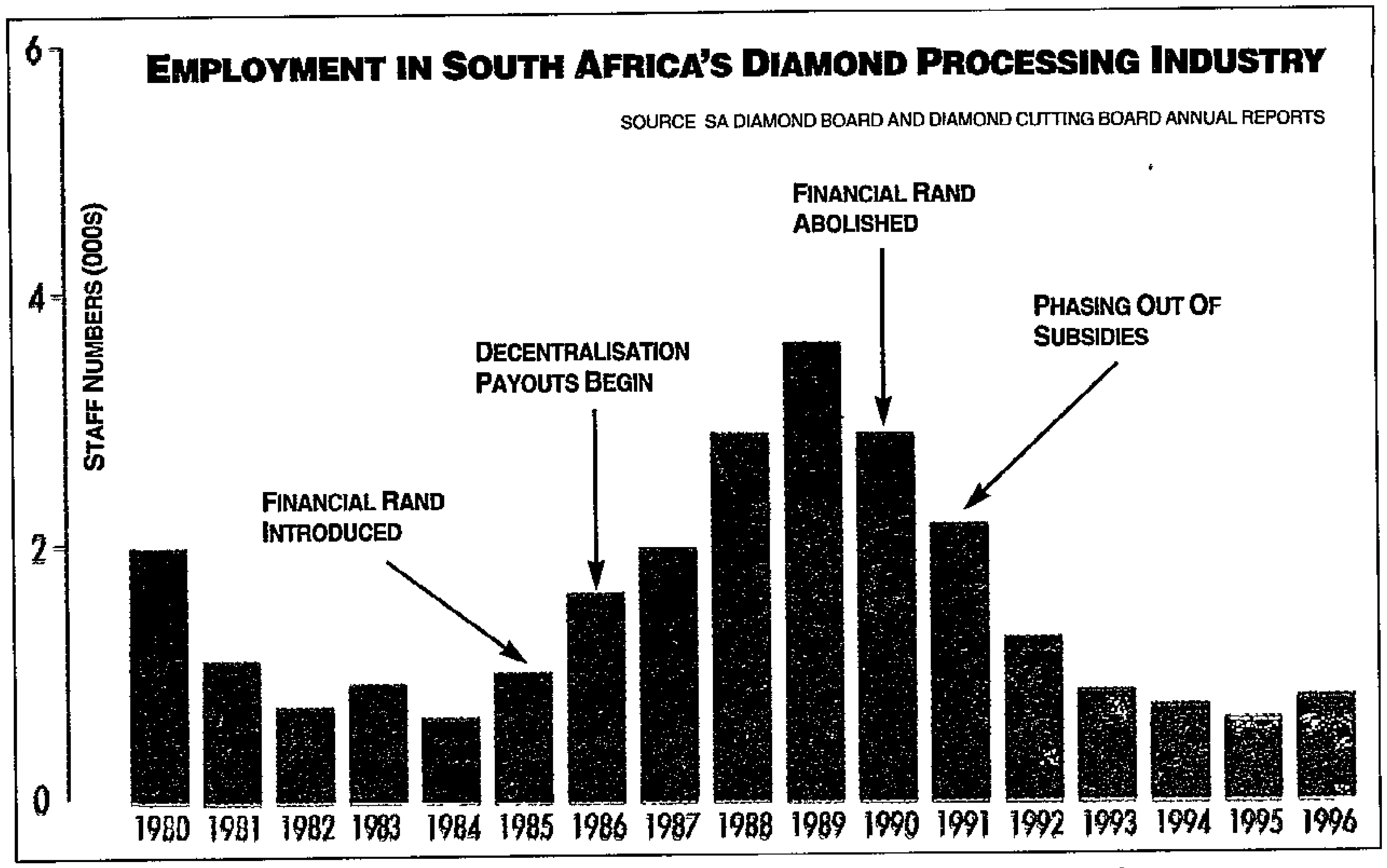
The R6,8bn minimill — a joint project between Iscor and the IDC — will be completed by mid-1998 with a rolling mill capacity for 2,5 Mt/year Depending on the success of the first phase, the Corex and steel plant facilities could also be doubled at a later stage

Saldanha Steel CE Bernard Smith says "If it can be proven that gas can be made available at Saldanha at an economical price, this could become a cheaper proposition for us to consider when we go into the second phase The cost of shipping in coal would also fall away so we will look closely at this option — but

Diamonds in spotlight

(216) MHG (BM) 31/1 – 6/2/97

The first inquiry into the diamond industry in 25 years could see a shake-up in the market, reports Max Gebhardt



In decline: De Beers has set up a training school in Johannesburg to boost the local labour force

THE diamond industry will come under the microscope next month as the government-appointed Commission of Inquiry kicks into gear. South African diamond giant De Beers is bound to feel the intense scrutiny of the wide-ranging investigation into the industry as it controls roughly 80% of the world diamond trade.

The commission, which was appointed by the Cabinet in 1995 to "investigate and report on all aspects of the South African diamond industry", starts its hearings early next month. The three-member commission, chaired by Judge Dennis Levy, has invited all sections of the diamond industry to present submissions to the committee on any of the listed issues.

But fears have been expressed in the British media that the commission is an attempt by the South African government to place pressure on De Beers to "repatriate" high-value jobs in London's Hatton Garden back to South Africa.

In an article in the London newspaper, *The Guardian*, concerns were raised that not just the well-paid jobs were at risk, but the "core of Britain's expertise in precious stones and the $4,5-billion that goes annually through the British banking system as a result of the diamond auctions held in London".

It was suggested that the 1 000-strong workforce at the Central Selling Organisation (CSO), De Beers's marketing arm, was under threat from the wide-ranging investigation into the industry — an allegation that has been strongly denied by the diamond giant. Director Tim Capon, in a letter to *The Guardian*, wrote that "there are no South African-related activities currently taking place in London which are capable of being transferred to South Africa".

De Beers has said it welcomes any investigation by the commission into the diamond industry and is willing to support its investigations.

"But London has been the centre of the rough diamond world since the 1600s and will remain so," Capon said.

'If there is a fear based on us creating jobs in the diamond industry locally, then they have a right to fear us'

What appears to have the British worried is the commission's ability to investigate "the supply of rough and unpolished diamonds to the local processing industry".

The CSO dismissed the reports of its workforce being under threat as "nonsense". It would not be affected by a South African commission of inquiry as it is controlled by Centenary, the Swiss-based off-shore arm of De Beers.

The Department of Mineral and Energy Affairs, the South African Diamond Board and other major stakeholders in the industry felt there was a need for an exhaustive investigation into the industry. The last such inquiry took place 25 years ago and was considered by many to be a whitewash.

The South African Diamond Workers Union has already said it would like to see the commission tackle the inadequate supply of rough diamonds to the local industry.

Linda Makatini, acting chief executive of the South African Diamond Board, said that the members — which includes De Beers — were committed to making sure the diamond industry is used for the wider development of South Africa.

"The Diamond Act clearly says that the industry should be for the benefit of the country," she said.

The board is busy drawing up a submission for the commission and has been tasked by Mineral and Energy Affairs Minister Penuell Maduna to define what they should do in regard to the Act's stipulation.

"If there is a fear based on us creating jobs in the diamond industry locally, then they have a right to fear us," she said.

The 1986 Act, which introduced new measures to encourage local beneficiation, doesn't appear to have achieved its task. Makatini said she would like to see more effort devoted to developing the cutting and polishing industry in South Africa.

According to De Beers, the number of people employed locally in the cutting industry has increased to between 1 600 and 1 800 workers in 1996, but this is off a high of about 4 000 in 1989. The quantity of rough diamonds sold by De Beers to its customers in South Africa last year increased by 20% to $341-million.

De Beers says every encouragement is given to cutters to ensure that diamonds allocated are processed locally. But given the high degree of specialist skills required in cutting and polishing larger diamonds, it says the potential for this sector to provide job opportunities is limited. However, it has launched a diamond training initiative in Johannesburg to train a new generation of diamond workers.

The commission couldn't be reached for comment at the time of going to press, despite numerous attempts.

De Beers, Russia reach a compromise on trade deal

(216) BD 10/2/97

Neil Behrmann

LONDON — Russia and De Beers had reached a compromise on a long-delayed trade deal, said Russian Finance Minister Alexander Livshits over the weekend

The statement was made following intensive talks with Gary Ralfe, CE of De Beers' Central Selling Organisation, and other key executives of the cartel

Livshits said the compromise "meets the interests of Russia and the De Beers Corporation".

Livshits did not give any details of the compromise, but his office said De Beers had largely agreed to changes in a draft agreement proposed by the finance ministry and the Russian diamond producer Almazy Rossii-Sakha.

A De Beers official who was in Moscow last week confirmed that the talks were promising and could lead to a full trade accord.

"We are pleased that progress is being made in the right direction," the De Beers official said.

The talks were held on Saturday, but Ralfe and the delegation had been in Moscow since Tuesday, she said. The talks had been meaningful, unlike rumours and false starts of recent weeks.

De Beers unilaterally stopped trade with Russia on January 1 after Moscow persistently failed to ratify a new agreement last year.

Almost a year ago De Beers negotiated a preliminary agreement covering the purchase of Russia's diamonds Almazy Rossii-Sakha concluded the draft trade agreement in September, but lobbying by the polishing industry, which insists on being the priority purchaser of the best-quality stones, delayed government approval.

Antwerp and London dealers contend that in any compromised deal, De Beers would buy a smaller proportion of diamonds from Russia, the world's biggest producer in terms of value

The local diamond industry is also likely to receive the cream of Russia's diamonds

In the previous five year accord, De Beers bought 95% of Russia's annual \$1,2bn diamond exports. But independent sales of the nation accelerated

The De Beers official said so far this year Russia had been selling few diamonds because of delays in export quotas

Even if there is a new deal with Russia, De Beers' share of the global rough diamond, estimated at 70%, is likely to shrink. De Beers will thus find it more difficult to control global diamond prices which are likely to fluctuate in line with market forces.

Diamonds from Russia accounted for 26% of De Beers \$4,8bn turnover last year.

Diamond dealers 'did not keep to sale conditions'

(216) BD 13/2/97

Deborah Fine

AN ATTORNEY told the Johannesburg High Court yesterday that in his opinion many De Beers sightholders conducted transactions which were contrary to the conditions on which they had bought unpolished stones from the diamond house.

Attorney Selwyn Cohen was testifying in a civil action in which diamond dealer Roger Lappeman is suing his former SA insurance brokers, MIB, for R31m for breach of duty.

The action arose after Lloyd's of London — through whom MIB had arranged insurance for Lappeman's Randburg and Pietersburg diamond cutting works — refused to settle a claim after 82 788 diamonds were stolen from Lappeman's premises in 1993.

The claim was repudiated on the grounds that Lappeman had failed to produce detailed records of all his sales, purchases and other transactions for inspection in violation of specific clauses in his insurance policy.

Lappeman has accused MIB of negligence through its agent, broker Alec Holmes, whom he alleges failed to inform Lloyd's of the "peculiar workings of the diamond industry" where it is common practise internationally to keep "confidential stock" for which no records were retained or produced.

Lappeman, who was also a De Beers sightholder, contended the terms of the policy should only have applied to his "official" stock, for which he had full and proper records.

Cohen, Lappeman's former attorney, agreed during cross-examination Lappeman had been hesitant to disclose information pertaining to certain transactions without first being given an undertaking of complete confidentiality.

However, Lloyd's insurance assessors had refused to be limited in their investigation by any conditions. Cohen said the reason for Lappeman's reluctance was that if the documentation had been openly disclosed it could have been "a little bit of a touchy subject with De Beers".

He explained De Beers sold sightholders unpolished diamonds on condition that the stones would be polished only at the sightholder's premises.

In his opinion, many sightholders traded "Indian-type" diamonds unsuitable for polishing in SA with third parties who could polish them.

"De Beers was big daddy and would hit these people with a big stick and possibly withdraw their sights," Cohen said.

Lappeman maintained throughout the investigation that it had been unnecessary for the insurers to examine his confidential stocks because they were irrelevant to his loss.

Lappeman had sufficiently proved the theft of the stones through records relating to his official stock. MIB has contested the claim on the basis that neither the company nor Holmes were aware of any informal record-keeping practices in the diamond industry.

'Off-the-book diamond deals endemic to industry'

(216) BD 14/2/97

Deborah Fine

"OFF-the-book" transactions, of which there were seldom records, were endemic to the diamond industry, diamond expert Noel Newton told the Johannesburg High Court yesterday.

"It is something I've been born into, bred into and it is inherent in the industry. Anybody in the industry knows and understands this. They could not survive 10 days in the business if they did not have this knowledge."

Newton was testifying in a civil action in which Gauteng diamond dealer Roger Lappeman is suing his former insurance brokers, MIB, for breach of duty on the basis that MIB broker Alec Holmes negligently failed to inform Lloyd's of London as to the "peculiar workings of the diamond industry", whereby few records are kept for certain transactions.

In papers before court, Lappeman explained that MIB had arranged insurance cover for his Randburg and Pietersburg diamond cutting premises through Lloyd's Merrett underwriting syndicate in 1990.

However, Merrett had rejected a claim by Lappeman for R31m after 82 788 diamonds were stolen from his Pietersburg premises in 1993, on the grounds that he had been unable to present full records of all his sales, purchases and other transactions in breach of certain of the policy's conditions.

Lappeman has alleged the repudiation was the consequence of MIB's failure to point out to Merrett the diamond industry's "informal recordkeeping" methods, as well as MIB's failure to alert him to the policy's conditions.

Opposing the civil action, MIB has denied knowledge of such methods, leaving Lappeman determined to prove that Holmes, a former police gold and diamond squad captain, must have been aware of diamond industry practices.

Testifying on Lappeman's behalf, Newton told the court that dealers would take diamonds from a seller, perhaps issue an IOU note, and then pass the stones onto a buyer. After taking a profit for himself, the dealer would then pay the seller.

The IOU note or any other documentation related to the deal was then destroyed, and the dealer would declare his profit as earnings. This constituted a fully lawful, "off-the-book" diamond industry transaction.

"There are few written contracts in this business. I accept a stone on my honour and integrity. If I lose the stone, or the buyer absconds without paying for it, I am responsible. A seller has no legal claim against me, but because of the integrity in the trade, I will pay him for the lost stone," Newton said.

He said the practice was as much due to the industry's traditional confidentiality as for security reasons. "We are moving around the world with parcels sometimes containing diamonds worth millions. The less people know who has what and where they are moving to, the less the likelihood of anything untoward happening."

The trial was postponed sine die to enable counsel to prepare for an application on Wednesday in which MIB are seeking almost R2m in security from Lappeman to cover MIB's legal costs should he lose the case.

Lappeman has opposed the application.

Tourism body seeks R330m

BD 14/2/97

Shareen Singh

THE Tourism Business Council of SA, a private sector initiative to promote tourism, has proposed to the government that a R300m national tourism budget be established, council chairman David Wigley said yesterday.

The council said the budget should be managed by the national tourism organisation to be established in terms of the department of environmental affairs and tourism's white paper.

Wigley said the council proposed that the R300m be funded by the government and the private sector and be used solely for the purpose of marketing SA as a tourist destination both internationally and locally. Research done by the council had found this amount was realistic enough to market SA effectively.

The council also recommended to government that it set targets for 2000 concerning the number of tourists the country should attract, foreign exchange earned through tourism and the number of jobs to be created by the industry.

Wigley said research showed that the industry could create 500 000 jobs over the next three to four years if tourism became a national priority.

He said small and medium enterprises could attract a significant chunk of the tourism market share and it was therefore important for organisations representing small business interests to become involved in significant tourism initiatives.

Stone Age relics put brakes on diamond miners

(216)

ST (CM) 16/2/97

By CHARL DE VILLIERS

A MAJOR row has erupted between the National Monuments Council and black prospectors who want to mine diamonds in one of South Africa's most valuable archaeological sites at Barkly West in the Northern Cape

In a bid to save priceless early Stone Age artifacts at Kantienkoppie, the council this week obtained an urgent interdict in the Kimberly High Court against the African United Small Mining Association, two miners and the Barkly West Municipality

The dispute has been further complicated by the fact that the mining project has been punted as a job-creation exercise for about 200 local people, although archaeologists at Kimberly believe the claim will be exhausted within a year

According to council archaeologist Dr Jeanette Deacon, the contested area seemed to have an older and far less disturbed collection of artifacts than those which have been protected since 1948 in the adjacent 9ha Kantienkoppie site.

"Normally, alluvial deposits on the banks of the Vaal River are all jumbled up because they have been washed downstream In this case, the deposits have been stratified into clear time zones which makes the site very important for dating

"Items at the bottom of the sequence are unusually old, dating back some 500 000 to 1,3-million years We don't have many collections of that age and size," she added

The site had been declared a provisional National Monument, but this had apparently not deterred the miners from going ahead

But in terms of an agreement made an order of court on Thursday, the miners have agreed to stop excavation, remove an earthdigger and not to dump excavated soil on the site until Friday when the court will hear opposing arguments

They have, however, been allowed to wash gravel extracted from the site, the council's Cape Town attorney, Peter Kantor, said this week.

According to an archaeologist at Kimberly's Mc Gregor Museum, mining had gone ahead at the site in spite of two years of exhaustive negotiations to find a compromise with local communities and mining representatives

"We believe the site should be turned into a museum which, unlike the limited lifespan of mining, will have long-term benefits for the community

"One of the big problems in this area is that people applying for mining permits almost habitually enter *"geen"* (none) when they have to state whether claims have archaeological deposits," he added

The miners had been granted mining permits last year.

Trevor Pikwani, president of the African United Small Mining Association, could not be reached for comment

Russia near new sales accord with De Beers

BD 17/2/97 (216)

Neil Behrmann

LONDON — Russia's sole diamond producer Almazy Rossii-Sakha (ARS) has disclosed details of its new draft sales agreement with De Beers which could see Russian member firms getting preferential access to the nation's best quality stones

ARS revealed that member firms of Russia's gem cutting industry could also become De Beers "sight holders" with the right to buy diamonds at De Beers' 10 annual sales.

ARS said that it expected the Russian government to sign the deal after negotiations between ministers and De Beers last week Russian government officials have indicated that the signing will take place before the end of March In terms of the accord, Russia would be a producer member of the cartel and would sell to De Beers around $1,2bn of diamonds or 26% of De Beers' total annual sales, said ARS

The deal is similar to the previous five year agreement except that Russia's growing gem cutting industry will receive first rights to ARS's top quality diamonds The Russian government aims to secure its control of Russia's mines and gem polishing business, according to ARS.

Russian producer and government officials would also participate in an "Observation Council" with De Beers executives and monitor global prices. The Observation Council will make sure that the nation receives fair quotes for diamond exports, ARS said

For the first time, De Beers will purchase its diamonds in Russia, said ARS A bizarre clause in the agreement will enable member firms of the Russian diamond cutting and polishing industry to join a select band of international dealers who have the right to purchase gems from the cartel.

Some Antwerp dealers were concerned. Russia's government-controlled diamond polishing and manufacturing businesses would be buying from De Beers, while its government-controlled diamond mining industry was a producer member of the cartel International dealers, however, are independent

"We are very happy with the progress and believe we are moving forward towards an official agreement," a De Beers spokeswoman said.

She would not comment on the ARS announcement , but London analysts expected the cartel to purchase better types of Russian diamonds than those bought during the past few years

Reinie Booysen reports that SMK Securities diamond analyst Hilton Ashton said "One of the Russian government's prime objectives is to promote the Russian cutting industry The cutting industry felt that in the past they did not get fair treatment under the arrangement with De Beers, but now they will have an equal opportunity to buy quality diamonds."

Reality forces bickering old partners into marriage of convenience

(216)

ST(BT)23/2/97

Russia has little choice but to sign a deal with the leaders of the world's diamond cartel, writes KENNETH GOODING

WITH only Russian president Boris Yeltsin's signature outstanding, the world's diamond industry breathed a sigh of relief when Russia said this week it would sign a new contract with the producers' diamond cartel organised by De Beers

A year ago the markets were nervous at the prospect of the world's second largest producer falling out with the cartel — arguably the most successful organisation of its kind and one credited with maintaining a steady rise in the price of rough, or uncut, diamonds over the decades

A memorandum of understanding was signed early last year and De Beers and Almazy Rossii-Sakha, Russia's biggest diamond miner, were expected to finalise details of the new contract in a matter of weeks But by December last year the deal had still not been finalised, and on January 1 De Beers cut formal links between the diamond cartel and Russia

Two or three years ago a split between Russia and De Beers would have caused convulsions in the diamond market and sent the De Beers share price into a sharp fall, but none of this happened Most in the industry believed that the Russians had little choice but to sign a new contract — and soon

"In the space of a few weeks the mood in Russia changed from hostility to the new contract to acceptance that it will be signed," says Mark Cockle of London-based mining consultancy CRU International

Earlier this week, Almazy Rossii-Sakha disclosed that the deal with De Beers awaited only the signature of Yeltsin Russian government officials also indicated that the signing would take place before the end of March

For 30 years, since it first began to mine diamonds, Russia has been one of the cornerstones of the cartel

Its support for what De Beers calls "single channel marketing" was seen to be essential Even during the apartheid era, when South Africa and the Soviet Union were at opposite ends of the political spectrum, the links were maintained via a complex chain of intermediaries

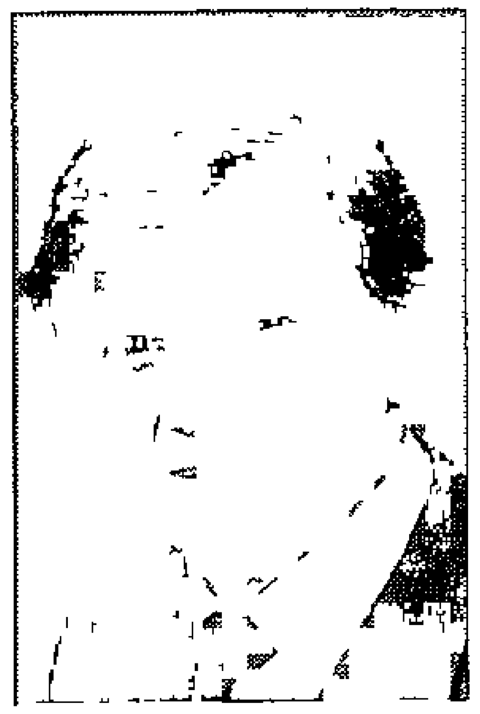
The mutual benefits were illustrated by the development of the relationship after the collapse of the Soviet Union

In 1990 De Beers loaned Russia $1-billion — more than any country offered at that time to help the Russians deal with their shortage of hard currency

In return, De Beers shipped diamonds from the Russian stocks to London as collateral for the loan and signed an exclusive, five-year marketing agreement, ensuring Russia would not be tempted to raise money quickly by dumping diamonds in the West

When the 1990 agreement expired, De Beers agreed to continue as if it was still in place while negotiating a new one with Almazy Rossii-Sakha This meant their London-based Central Selling Organisation continued to be committed to buying Russia's diamonds at a predetermined price in good or bad times

However, relationships deteriorated over claims by De Beers that Russia had flagrantly disregarded the 1990 marketing agreement It accused Russia of bypassing the cartel, by "leaking" diamonds directly to the West — leaks that surged to $80-million a month at one stage last year



GARY RALFE MD of the CSO

De Beers also suggested the Russians were carefully pre-sorting the diamonds sent to the cartel and removing those that were most in demand In effect, the CSO was being turned into "a buyer of last resort"

"If the terms of the old agreement had been followed, we could have stuck with it," says Gary Ralfe, managing director of the CSO "Instead there have been leakages We have not had a proper contract for three years We had to perform, they have not "

On the Russian side, some players complained that De Beers was not paying enough for Russia's diamonds They found it hard to understand why Russia, which contributed about 20% of the cartel's rough diamonds, did not have a say in the operation of the CSO or the way it fixed prices

There were also suggestions that a new contract with De Beers would hold back Russia's efforts to develop its own diamond cutting industry "De Beers must come to terms with the fact that Russia itself can process all the diamonds it produces," says Evgeny Bychkov president of the Russian Association of Diamond Manufacturers All this has been very frustrating for De Beers Although it reached agreement on the terms of a new contract with Almazy Rossii-Sakha, the process took much longer than expected because of elections, Yeltsin's health and political infighting

There have been more bureaucratic delays because Komdragmet, the state committee for precious metals and stones, was disbanded and its activities split between two ministries.

The draft contract agreed in October had been passed between departments

Meanwhile, the Central Selling Organisation is buying only those Russian diamonds it wants to buy at prices it is prepared to pay. Retail sales of bigger diamonds are doing well — the CSO reported record sales of $4 83-billion for 1996 — but the market for smaller, cheaper and near gem rough diamonds is more brittle

Traders suggest the new contract will involve the Central Selling Organisation buying about $600-million a year of these smaller stones, which Russia might now have difficulty in selling The CSO will also commit to buying $500-million a year of bigger rough diamonds, but might now be able to pick some of these up at a lower price from Western traders who have bought them directly from the Russians

"We can now approach whoever we like on whatever basis we want and we have more freedom to buy more on the secondary market," says Ralfe. "We have been inhibited in the past (buying Russian diamonds leaked to the West on the secondary market) because we did not want to bankroll the people involved in the leaks "

The certainty that the Central Selling organisation is still willing to use its big financial power to support at least the top end of the rough diamond market is one reason why the severing of links with Russia has caused no market panic But traders have also been reassured that the market will not be deluged with Russian diamonds — as many feared two or three years ago

Not only is Russian production suffering some difficulties, it has also been clear for some time that the country's diamond stocks are running low

This was confirmed recently by the Accounting Chamber, a Russian parliamentary watchdog committee, which warned stocks would be exhausted by mid-1998 if sales went on at the same rate as in 1995/96

Another reason for this change of heart among previous opponents to the deal may be that Russia's industry has realised that it can hardly build its own diamond-cutting industry if the mines do not produce enough diamonds

Indeed it appears what clinched the latest deal was an agreement to give Russian members' firms preferential access to the nation's best quality stones

Russia also needs to modernise its existing mines and develop new ones if it is to have a long-term future in the business

But revitalising the mining industry will require substantial capital and a great deal of it will have to be provided by Western companies

Russia has already had a taste of what to expect if it has no secure links with De Beers

Almazy Rossii-Sakha has been trying to arrange a $500-million loan with a group of Western banks led by Natwest Markets of the UK The first tranche, to be use to replace the company's ageing vehicle fleet, will be paid out only when the banks know it has a guaranteed export outlet for its production

And that, they insist, can be provided only by a new marketing contract between Russia and De Beers — *Financial Times*

DIAMOND-PRODUCING COUNTRIES

	CARATS (million)	AVERAGE PRICE ($ per carat)	VALUE ($m)	WORLD VALUE (%)
South Africa	10.0	105	1 050	15
Zaire	15.0	30	450	6
Other Africa	2.8	140	390	5
Russia	10 0	140	1 400	19
Australia	40.0	9	360	5
Miscellaneous	1.0	100	100	1
WORLD	**104.5**	**70**	**7 286**	**100**

Graphic FIONA KRISCH

A sparkling cluster of interests

VYACHESLAV Shtyrov, head of Almanzy Rossii-Sakha, blames "powerful forces" in Moscow for the Russian Federal government's delay in approving a preliminary three year agreement signed with De Beers in February They wish to grab control of the industry, he believes

Russia's diamond industry is chiefly clustered around the town of Mirny in the Sakha republic, formerly known as Yakutial, where it helps sustain 1-million inhabitants in an area five times the size of the France Relations between the diamond mining company and the republic's government are extremely close, to the point of being almost indistinguishable

Mikhail Nikolayev, the president, has jealously guarded the industry against interference from Moscow, like several other powerful regional leaders, he has tried to chart an increasingly independent course.

But the Kremlin believes it has given such regions too much financial autonomy. And the agreement with De Beers is a useful weapon to curb the ambitions of the Sakha republic

The federal tax service has turned up the heat by launching an aggressive campaign against Almazy Rossii-Sakha, saying it is guilty of tax evasion

Almazy Rossii-Sakha has furiously denied charges, insisting it is obliged to pay taxes only to the local government under the terms of a power-sharing treaty signed between Moscow and the Sakha republic It also hints that it is Moscow that has been responsible for leaking diamonds on the world market to undermine the company's credibility — *Financial Times*

Benco releases startling figures

MARC HASENFUSS

Cape Town — Benguela Concessions (Benco), the marine gem hunter, said on Friday that it has retrieved 2 400 carats of diamonds since the close of its interim reporting period to November 30 1996

This disclosure rendered the company's half-year figures almost meaningless They showed a small net profit of R667 000 from exploration activity before the $10 million Moonstar mining vessel was commissioned

Only 1008 carats were produced in the interim period, less than half the amount the Moonstar achieved for the ensuing third quarter

In January and February the Moonstar was mainly engaged in ore development programmes and trial mining in the Smith's Ulcer feature at concession 2b off the Namaqualand coast

During those programmes Benco retrieved 921 diamonds from 154 trenches, 74 percent of which were diamond bearing

Production in February included a record "24 hour return" of 1 040 stones, which weighed 335 carats

That helped Benco comfortably exceed its budgeted figure of 2 000 carats for the month

Stuart Smith, the managing director, said the Moonstar's overall results were close to the company's expectations

"At this stage there is no cause to adjust the forecasts which have been made previously At full efficiency we expect the Moonstar to recover at least 5 000 carats a month in the richer grade deposits," Smith said

THI leaps in alluvial diamond exploration

(21b) CT(BR) 3/3/97

MARC HASENFUSS

CAPE EDITOR

Cape Town — Trans Hex International (THI), the offshore exploration arm of the JSE-listed Trans Hex Group, reported significant progress in alluvial diamond exploration projects in Namibia, Indonesia and Brazil

This encouraging news could be partly responsible for the sudden sparkle in the parent company's share price on the JSE

Results for the third quarter to December 31 showed THI's cash reserves at C$10 million (about R30 million) after exploration expenditure of $4,6 million in Indonesia and Brazil Advances were also paid back to Trans Hex

THI successfully raised C$24 million (about R80 million) in two financings recently when the company listed on the Toronto Stock Exchange

Niel Hoogenhout, the president of THI, said that drilling at the Northbank project on the Namibian bank of the Orange River had outlined more than 19 million cubic metres of diamondeferous gravels

He said the Indonesian dredging project in the waters of the Sunda Shelf off Kalimantan, had seen the first bulk sampling site stripped of overburden

Hoogenhout said in Brazil THI had completed a regional drilling programme

The bulk sampling results were being assessed at the Bongaran alluvial deposit in the Central African Republic, he said

Drilling and bulk sampling at the Somabula project in Zimbabwe, however, had been discontinued after highly erratic grades, he said

De Beers' year results are expected to shine

BD 4/3/97 (216)

DIAMOND group De Beers is set to report a polished set of year-end results today as rising gem sales and its extensive portfolio of investments reap healthy profits

Analysts said the firm posted good interim figures in August and little change was expected to a positive trend in diamond sales and benefits from large holdings in groups such as Anglo American and Minorco

"Diamond sales, the depreciation of the rand and the investment companies should all be good," said SocGen Frankel Pollak analyst Ross Gardiner.

Analysts expect total share earnings of R11,97-R14, against R9,38 for the previous year, and a dividend of 370c-447c a share, up from 339c

Demand has been good and analysts said they would be looking for encouraging signs of demand in the lucrative Japanese and Southeast Asia markets.

However, De Beers, which sells about 75% of the world's diamond production through its London-based Central Selling Organisation (CSO), has had contract rows with Australia and Russia that threatened the cartel

Analysts said the firm's comments on these areas, and in Canada where Australia's Broken Hill is considering selling outside the CSO, would be watched for trends in the industry

Last year Australia's CRA said its Argyle mine, the world's biggest diamond mine, would snub the CSO and market gems directly

Russia, however, looks more likely to stay with De Beers Russia's Almazy Rossii-Sakha is currently outside the De Beers system, having missed a New Year's Eve deadline to sign a new deal But Russian first deputy Prime Minister Vladimir Potanin said recently that a deal was likely to be signed soon

Analysts agreed, saying De Beers had called Russia's bluff "The Russians could have kept them running around for ever Ending the deal called their bluff and concentrated their minds," said one

Despite the apparent weakening of the cartel, De Beers shares have rocketed to near record highs, closing at R157,50 yesterday after languishing as low as R121,75 in December.

One area of concern for De Beers and the global diamond industry was a flood of cheap diamonds from the river beds of northern Angola in areas mainly controlled by local warlords. Analysts said, however, that the problem would be a short-term one as the alluvial deposits were set to run out over the next four years and the country would need international groups to mine remaining reserves —Reuter

Higher diamond sales lift De Beers

(216) BD 5/3/97

David McKay

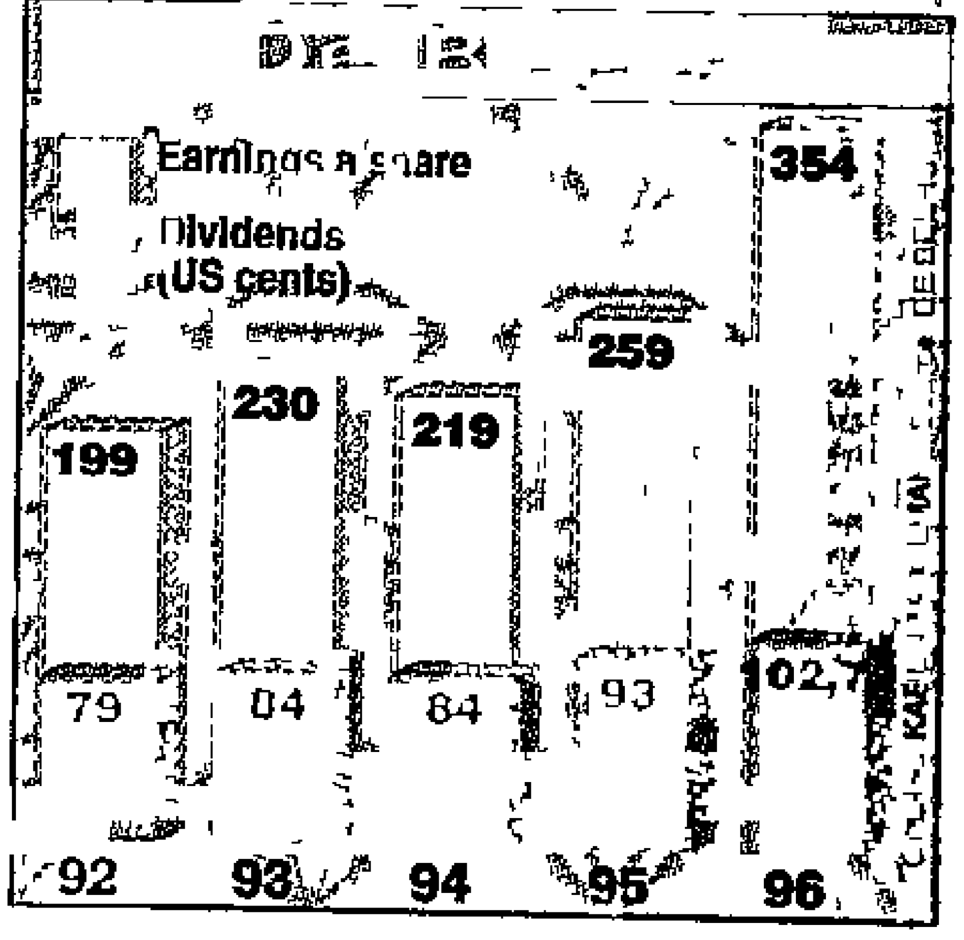
DE BEERS' attributable earnings, including exceptional items, jumped 56% to R3,5bn in the year to December due to higher diamond sales and a surplus from the sale of its interest in industrial group Johnnic to a black-owned consortium

The combined equity accounted earnings exceeded market expectations rising to R14,99 a linked unit from R9,38 a linked unit last year. A combined full dividend of 480,7c a De Beers-Centenary linked unit was declared (1995: 339,1c)

The combined results consist of the performance of SA-based De Beers Consolidated Mines and the dollar-denominated Swiss-based company De Beers Centenary AG

The group said yesterday the combined diamond account increased 24% to R3,4bn, boosted by the effect of the rand-dollar exchange rate.

This offset higher taxation paid by the group, which climbed to R948m from R713m. Taxation and royalty



payments were payable by De Beers on its investment in the Venetia diamond mine, it said.

Income from investment also contributed to higher earnings, rising to R980m from R805m due to increases from major associates including Anglo American and Anglo American Indus-

Continued on Page 2

De Beers

(216) BD 5/3/97

Continued from Page 1

trial Corporation. These companies had a strong dividend income.

An exceptional item of R461m boosted earnings further. This was De Beers' share of the surplus on the disposal of shares in Johnnic. About 48% of Johnnic was sold by De Beers and Anglo American to the National Empowerment Consortium in August.

Chairman Julian Ogilvie Thompson said sales of rough diamonds by De Beers' marketing arm, the Central Selling Organisation (CSO), were 7% higher, totalling R20,4bn. However, these sales were affected by a lacklustre Indian market stemming from the departure from the CSO of Argyle, the Australian producer of small, lower-value gems.

Considering there had been no global growth in diamond sales, De Beers had performed well, Ogilvie Thompson said. The market for rough gem diamonds larger than half a carat had remained firm this year.

De Beers, Centenary up earnings 32%

(216)

ARG 5/3/97

Johannesburg – De Beers Consolidated Mines and De Beers Centenary lifted combined attributable income by 32 percent to US $828 million (about R3,726 billion) in the year to December.

The group said yesterday that including the share of retained earnings of associates, combined earnings were $1,344 billion compared to $986 million in 1995

Earnings per share increased to US 218 cents a share, excluding associates earnings, or 354 cents (259 cents) including the retained earnings.

The results were boosted by $109 million from the surplus on the disposal of a portion of the group's interest in Johnnic.

Total combined dividends for the year increased by 10,5 percent to US 102,7 cents.

Converted at rand/dollar exchange rate of December 31, dividends increased by 42 percent to 480,7 cents per shares per Beers/Centenary linked unit.

The combined diamond account amounted to $803 million compared to $760 million in 1995. – Sapa

Japanese market knocks De Beers' turnover

(216) BD 6/3/97

Neil Behrmann

LONDON — Global retail diamond jewellery sales have fallen for the first time since 1990, the year of the Gulf war.

Turnover fell 2% to $51,2bn, despite booming sales in the US. Poor market conditions in Japan were to blame, while the slide of the yen from extraordinarily high levels in 1995 also lowered the value of global diamond sales, calculated in dollars.

The number of diamond pieces sold rose to 66,8-million last year from 65,5-million in 1995.

According to De Beers, sales of diamonds in the US surged 7% to $17,9bn last year.

Yet recession, the bankruptcy of Japanese jewellers and the yen's decline caused a 14% slump to $14,4bn in Japanese diamond jewellery sales.

"World diamond jewellery sales would have risen by 4%, but for Japan," De Beers director Anthony Oppenheimer said at Tuesday's release of the diamond mining group's annual results.

Despite the disappointing global jewellery returns, De Beers' profit from diamond revenue rose 5,6% to $803m (R3,4bn) because of a price increase in the middle of the year and a shift in demand to better quality gems.

Last year, De Beers' sales rose 7% to $4,8bn, and so far this year $1bn worth of rough diamonds have been sold.

De Beers consumer marketing division director Richard Lussier said diamond sales in the US should continue to grow this year.

Individuals were buying more expensive engagement and anniversary rings, and Valentine's day was good for business, he said. Diamond solitaire necklaces, which contained small and large diamonds and were priced between $1 000 and $3 000, were particularly popular, he said.

De Beers spends $200m on advertising each year and is hoping that the Japanese market, the second largest after the US, will revive soon.

On last year's returns the US accounted for 35% of the global retail diamond jewellery market, while Japan's share fell to 28% from 32% in 1995.

European diamond jewellery sales, helped by a 13% surge in demand in the UK and 5% increase in Italy, rose 10% to $7,8bn or 15% of the worldwide total.

Sales in the UK and France were just less than $1bn each.

Turnover in Asia, excluding Japan, was disappointing, stagnating at $3,7bn or 7% of the total.

Poor returns in Taiwan and Thailand were to blame, but sales in Korea rose 4% to $1,1bn and in China by 5% to $305m.

Questioned on predictions by analysts that the declining Russian gem stock pile could eventually cause a shortage of rough diamonds, De Beers chairman Julian Ogilvie Thompson said there would be production increases in southern Africa, notably at the Orapa mine in Botswana.

There was also potential for higher output at the Finch and Venetia mines, a De Beers spokesman said.

Antwerp and London dealers said Canadian output would also rise, while Russia had huge potential reserves of top-quality gems.

FOOTNOTES

Great times ahead for De Beers and Central

BD 13/3/97

CORE earnings growth from De Beers was impressive a series of non-recurring items further enhanced results for the year to end-December Which raises the question why was this a good time for De Beers to report such good numbers?

There are at least three possibilities, none mutually exclusive

First a show of strength does no harm after a year in which reports of the Central Selling Organisation's problems in signing an agreement with Russia dominated the media, as did the decision by Australia's Argyle to market its diamonds outside the CSO Second the dividend flow from De Beers will provide a healthy boost to Anglo, which had been expected to report fairly flat dollar earnings for the year to March this year, off last year's very high base Third, and perhaps most interestingly De Beers could be looking ahead to a spectacular year for diamonds in 1998 and padding a bit now to smooth earnings growth later

Everyone should have such problems Which is not to say there are no uncertainties in the outlook. The level of Angolan production (which is rising) and of Japanese sales (which fell last year) are two wild cards

In dollar terms, equity accounted earnings per De Beers/Centenary linked unit were up 33% to $0,354c for the year to December The equivalent rand earnings benefited from currency devaluation to rise 60%

However, the sale of Johnnic to the National Empowerment Consortium meant a once-off profit of $109m (R461m) in the accounts. Without Johnnic, the group reported dollar earnings per linked unit up 25% and rand earnings up 47%

But there were other one-off items Associate Minorco sold non-core assets and the De Beers/Centenary share (probably about $50m) was included in the "retained earnings from associates" in the Centenary income statement An addition was the "other" item in the De Beers Consolidated Mines income statement, which swung from a negative R19m to a gain of R110m — probably reflecting an unusual level of share sales in the group's trading portfolio.

Excluding all of these, one analyst comes up with a core (equity accounted) earnings figure of R12,73, against the all-in R14,99 including exceptionals But this still gives strong core earnings growth of 35% in rands, or about 15% in dollars. It comes off growth in the De Beers/Centenary diamond account, which was up 6% in dollar terms

The cream on top featured in the dividend, which was up 11% in dollar terms and 42% in rands and will flow through to Anglo's results

But this was not an inappropriate time for De Beers to remind the market of its clout. Through the CSO, it still controls the marketing of 70%-80% of the world's diamonds And production in its southern African mines is on its way up to half of total value of world output

Many would argue that the hype about the Russians has been misplaced Russian diamond production has fallen dramatically since 1989, from about 20-million carats to 13,8-million in 1995 It may fall further by 2000 Russia's annual output is now worth only about $1,2bn — less than that of Botswana's Jwaneng mine (owned jointly by De Beers and the Botswana government), which produces about $1,4bn worth a year

Sales from Russia's stockpile have been running at $1bn for each of the past three years, but are expected to decline sharply. It is not known how much is left of the stockpile, but on one estimate Russia has all but run out of good quality gems apart from some exceptional quality stones (10,8 carat upwards) but would probably not want these sold for cutting outside Russia.

In terms of the old 1990 agreement, Russia used to sell $1bn of diamonds a year through the CSO, then about 25% of total CSO sales. But if the new agreement is signed, it will account for no more than about 10% of CSO sales — the memorandum of understanding signed in February last year is believed to indicate that Russia would sell $523m through the CSO

CSO MD Gary Ralfe said last week that the process was moving ahead satisfactorily, following the suspension of the old agreement at the end of last year He expects the new agreement to be signed into law within three months

But at the presentation of De Beers' results last week Standard Equities analyst James Picton questioned whether the Russians would be able to deliver He estimates the Russian cutting industry needs $600m worth of stones In addition is the 20% "window" provided in the memorandum of understanding for the Sakha province to sell its diamonds outside the CSO, which would cover a further $240m. That would leave a mere $360m worth of diamonds for the CSO Ralfe countered with an estimate of only $500m for Russian cutters' needs and referred to Russia's ability to draw from the Gokhran stockpile for the duration of its contract with the CSO.

But there clearly is a big question mark over how important the Russians — and the new agreement — really are The other issue which may bear on the results De Beers/Centenary reported last week is the supply/demand balance in the world market in coming years and the question of quotas for mines

Picton believes it is possible that by next year the market will be sufficiently balanced to enable the CSO to lift the quotas. Botswana and Namibia, whose economies and export revenues are heavily dependent on diamonds, would favour such a move And with the mines selling all their output, De Beers' diamond earnings would take off.

Earnings this year will be boosted by further exceptionals — this time the profit on the sale of JCI to the Saflife/Mzi Khumalo consortium

If the group does expect diamond earnings to leap in 1998, it may already have started building that factor into the earnings trend

Selling Organisation (216)

Hilary Joffe

De Beers to mine low-yield pipes

CT(BR) 19/3/97 (216)

From Sapa

Gaborone — De Beers has been granted a mining lease over five kimberlite pipes at Martin's Drift close to the Botswana-South Africa border, 90km southeast of Palapye and 275km northeast of Gaborone

Low yields are expected, with a resource value below $10 dollars a ton being quoted. The overall expected mine life has not yet been determined The mine will be operated by Tswapong Mining Company, in which the Botswana government will have a 15 percent stake. The remainder of the equity is held by De Beers Prospecting Botswana

Work would commence on site shortly with bush clearing and road building, De Beers said in Johannesburg yesterday

Project manager James Campbell said he expected the first parcel of diamonds to be in the Botswana Orapa House sorting centre by the end of September. "We are aiming at fast-track development," he said

The mining lease was for four years and because of the low resource value of the mine, that period would in effect be a sampling exercise

Legal wrangle over De Beers' Canadian deal

216

GB 4/4/97

VANCOUVER — A legal challenge has been mounted against the recent deal between De Beers and three Canadian exploration companies to develop a promising Arctic diamond property

Canamera Geological president John Dupuis has filed a lawsuit in the British Columbia Court of Appeal seeking an injunction against a deal between Canadian companies Mountain Province Mining, Glenmore Highlands and Camphor Ventures, and De Beers exploration unit Monopros, which was announced last month.

Under the joint venture deal Monopros could earn a 60% interest in the AK/CJ diamond property in Canada's Northwest Territories if it completed exploration work, sampling and a feasibility study, and financed a mine

Mountain Province president Jan Vandersande said Dupuis, who sold the property to Mountain Province, claimed he had the right of first refusal. The court had granted an interim stay until the case was heard

Dupuis had no comment yesterday. Vandersande said lawyers had told the three companies that the claim was without merit and the lawsuit would have no practical effect on the deal

"We believe he has no case and work is continuing," he said

Because Monopros had to meet many conditions before it gained control of the property, the vesting of its interest was probably two years away, he said But theoretically the interim stay would bar the transfer to Monopros if Mountain Province sought to enact it now, Vandersande said

Mountain Province holds half of the property, Glenmore 40% and Camphor 10% When the option agreement was announced the companies said they intended to consolidate their holdings in the diamond prospect under Mountain Province through a share exchange So far the exploration companies have discovered one kimberlite pipe on the property that contains an estimated 19 million tons of ore grading two carats a ton —Reuter.

De Beers sells holdings to small-scale miners

Shareen Singh BD 16/4/97 (21b)

DIAMOND group De Beers has sold 44 of the 50 holdings it earmarked a year ago for sale to small scale miners "particularly from disadvantaged communities", the company said yesterday

Most of the holdings sold are located in the Northern Cape and North West Province The price of each holding differed according to value De Beers did not wish to disclose the sales' total amount

As mineral rights can be separated from the surface title, the interests of the land or surface owners of the properties concerned were also taken into consideration by the company. Several offers were accepted from surface owners, some of whom were small scale miners in their own right, and others who were the sole bidders on their own properties

Among the black empowerment groups which were successful in the tenders were Botshelo Bontle Holdings, which was awarded five mineral rights, Dumela Mining in partnership with a listed company Amalia Corporation, and Piet and Thebe Recycling in a joint venture partnership with the Christiaan Potgieter Trust

Since the announcement of the mineral rights offer in March last year about 400 individuals and parties had registered their interest, De Beers said. The final 44 were chosen from more than 200 bids for the various mineral rights holdings

Diamond production from De Beers six SA-based operations increased 4% to 9,39-million carats in its 1996 financial year, the group said in its latest annual report

These mines, which included Venetia, were operating below capacity to minimise costs and in response to the restriction on deliveries in terms of the quota arrangements However, deliveries could be increased as one of the reasons for the quotas — the selling of diamonds from Russian stocks — would be more tightly controlled in the future

De Beers waits for Russia to thaw its deal-signing hand

Diamond deal on ice

CT (BR) 16/4/97 (216)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Diamond company De Beers said yesterday it had still not received the Russian government's final approval for its new trade deal thrashed out last year.

"In the early months of 1997 there have been discussions with the Russian government, and the details of the trade agreement have been finalised in conformity with the memorandum of understanding," a De Beers statement said yesterday.

It said the deal was "still awaiting formal approval by Russian President Boris Yeltsin and the government" and that it hoped the agreement would be signed "within a few months"

Because of continued leakages of rough (uncut) diamonds from Russia and delays in signing a new deal to market Russian production through De Beers' marketing network, the Central Selling Organisation, the company stopped buying diamonds from Russian producers at the end of last year Some diamonds bought in February have not been allowed to leave Russia because of export quota issues.

The original marketing arrangement had been due to end in 1995 but had been rolled over pending discussions with the Russian authorities to reinstate the deal

Negotiations had been protracted, and a final decision from Russia was scheduled for yesterday, but no verdict was reached Any settlement would need a presidential decree.

De Beers increased its South African diamond production by 4 percent to 9,39 million carats last year from 9,05 million the previous year. This accounts for about 50 percent of world diamond production by value.

De Beers said production had been restricted to minimise costs

"The need for quota restrictions has flowed not so much from a surplus of new production over current retail demand, but rather from the sale by Russia of diamonds from stock," De Beers said.

It believes these sales will "reduce substantially over the next few years (and) there should be scope for increased deliveries from existing mines, even allowing for new production from Canada, (if) the retail market continues to grow as world GDP (gross domestic product) grows"

De Beers shares rose 50c yesterday to close at R165,50

De Beers explores expansion options

BD 19/4/97 (216)

David McKay

DE BEERS could deepen several of its underground mines in a drive to extend the life of its SA-based operations and create more jobs, chairman Julian Ogilvie Thompson said in the group's annual report

As part of an expansion initiative, the group intends to reopen dormant pipe mines in the Northern Cape and Free State provinces, and retreat dumps in Kimberley and Jagersfontein

There was potential for increasing production from mines in Botswana, Namibia and SA

SA mines' production would be boosted by implementing continuous operations and a number of process changes Increasing shifts worked was another option

The Venetia mine, which De Beers shares with Anglovaal's mining and exploration firm Avmin, Finsch and Premier mines have all been earmarked for these initiatives, he said

A spokesman said the group was working on the economies of such expansions and that details were not yet available

Ogilvie Thompson said the production and the sale of rough diamonds were expected to grow as Russia's stockpile decreased De Beers would benefit from the growing demand for jewellery in line with world economies

Production from SA mines grew 4% to 9,39-million carats in the past financial year. Venetia lead with production of 4,39-million carats from 4,35-million carats in 1995.

Finsch mine, north-west of Kimberley, was the second-highest producer The mine increased its output to 2,1-million carats from 1,72-million carats

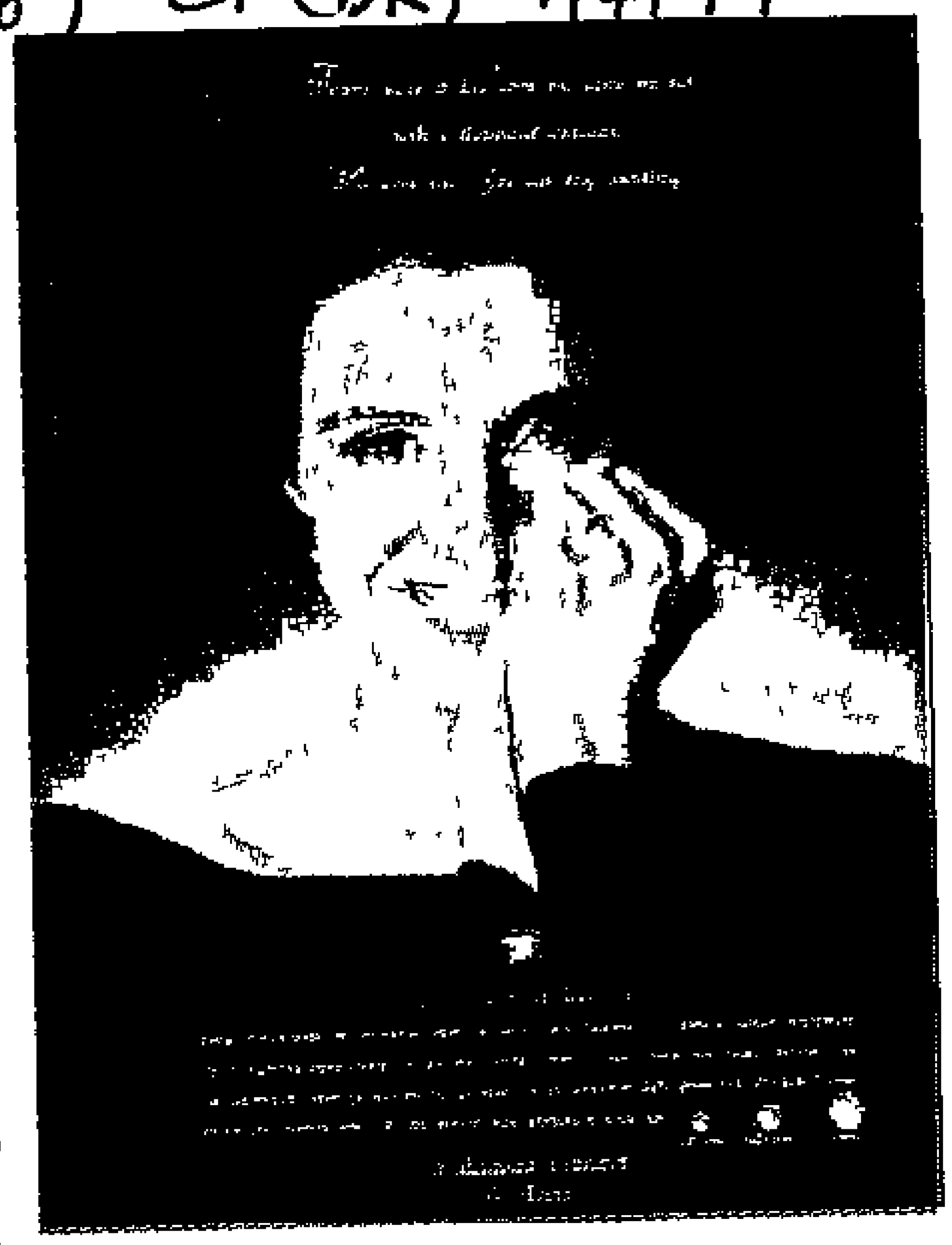
De Beers sets new record for diamond purchases

(216) CT (BR) 21/4/97

Andi Spicer
Mining & Resources Editor

Johannesburg — The Central Selling Organisation (CSO), De Beers' marketing wing, bought a record number of diamonds on the open market in Israel, Antwerp and Africa last year, the company said in its annual report, published last week.

It said this was mainly because of the continued availability of "substantial volumes of Angolan goods throughout the year" Most of these stones were "readily saleable," it said



STILL A BEST FRIEND *A European magazine campaign doesn't need to do much to entice buyers of the everlasting commodity*

Stocks of rough and polished diamonds in cutting centres increased in the first half of the year, particularly in India But by the end of the year, stocks of polished diamonds "began to fall to reasonable levels" Stocks of better-quality stones are presently at low levels, explained the report

Total sales by the CSO reached $4,83 billion last year, an increase of 6,7 percent on the previous year "despite significant sales of Russian rough gems direct to the market and the decision by Argyle Diamond Mines to discontinue their contract with the CSO"

A trade deal negotiated with Russian producers to renew their participation with the CSO seems to be stalled at government level despite promises that a decision on whether to sign the agreement would be made last week For the deal to go through a Russian presidential decree is needed.

CSO sales reached a record $2,78 billion in the first half of the year, 8,2 percent up on the previous year, leading in July to De Beers announcing an average price rise of 7 percent for diamonds above one carat and 3 percent overall

In the second half of the year, after the ending of the Argyle contract, the prices of lower-quality smaller diamonds were "adversely affected", and CSO sales pushed up to another record of $2,08 billion, 4,8 percent up on the same period in the previous year

DE BEERS

Dispelling fears of a surplus

(216) FM 25/4/97

Amid talk of a shortage, De Beers spells out expansion potential

- **ACTIVITIES** *Mines gem and industrial diamonds and through the CSO controls about 75% of world diamond production Has significant investment stakes in Anglo American Minorco and Amic*
- **CONTROL·** *Anglo American Corp*
- **CHAIRMAN** *J Ogilvie Thompson Deputy Chairman N F Oppenheimer*
- **CAPITAL STRUCTURE** *380m linked units Market capitalisation R60,8bn*
- **SHARE MARKET.** *Price 16 000c Yields 2,9% on dividend, 8,6% on earnings, p e ratio, 11,6 cover, 1,9 12-month high, 16 750c low, 12 175c Trading volume last quarter, 13,6m shares*

Year to December 31	'93	'94	'95	'96
Investment income (Rm)	563	692	805	980
Diamond stocks($bn)	4,1	4,4	4,7	4,7
Diamond acc (Rbn)	2,4	2,2	2,7	3,4
Attr earnings (Rbn)	2,0	2,0	2,3	3,5
Equity earnings (Rbn)	2,9	2,9	3,6	5,7
Attributable earnings (c)*	514	516	594	802
Equity earnings (c)*	754	769	938	1 378
Dividends (c)	286,8	299,6	339,1	480,7
Tangible NAV (c)	14 131	16 408	15 590	18 489

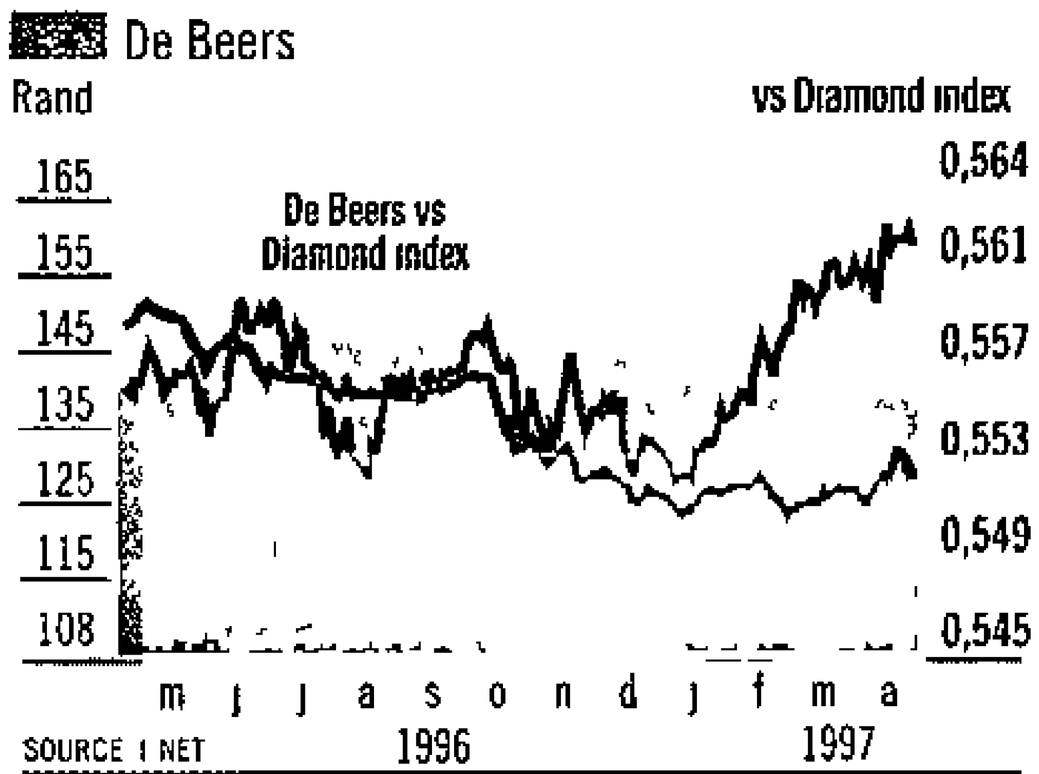
*Excluding exceptional item

After the years of uncertainty during the campaigns on the Russian Front, De Beers is putting on a tour de force after calling Moscow's bluff in December when it cancelled the CSO marketing agreement

The market is impressed The share price has gained 21% from R134 at the end of last year to R162,50 now

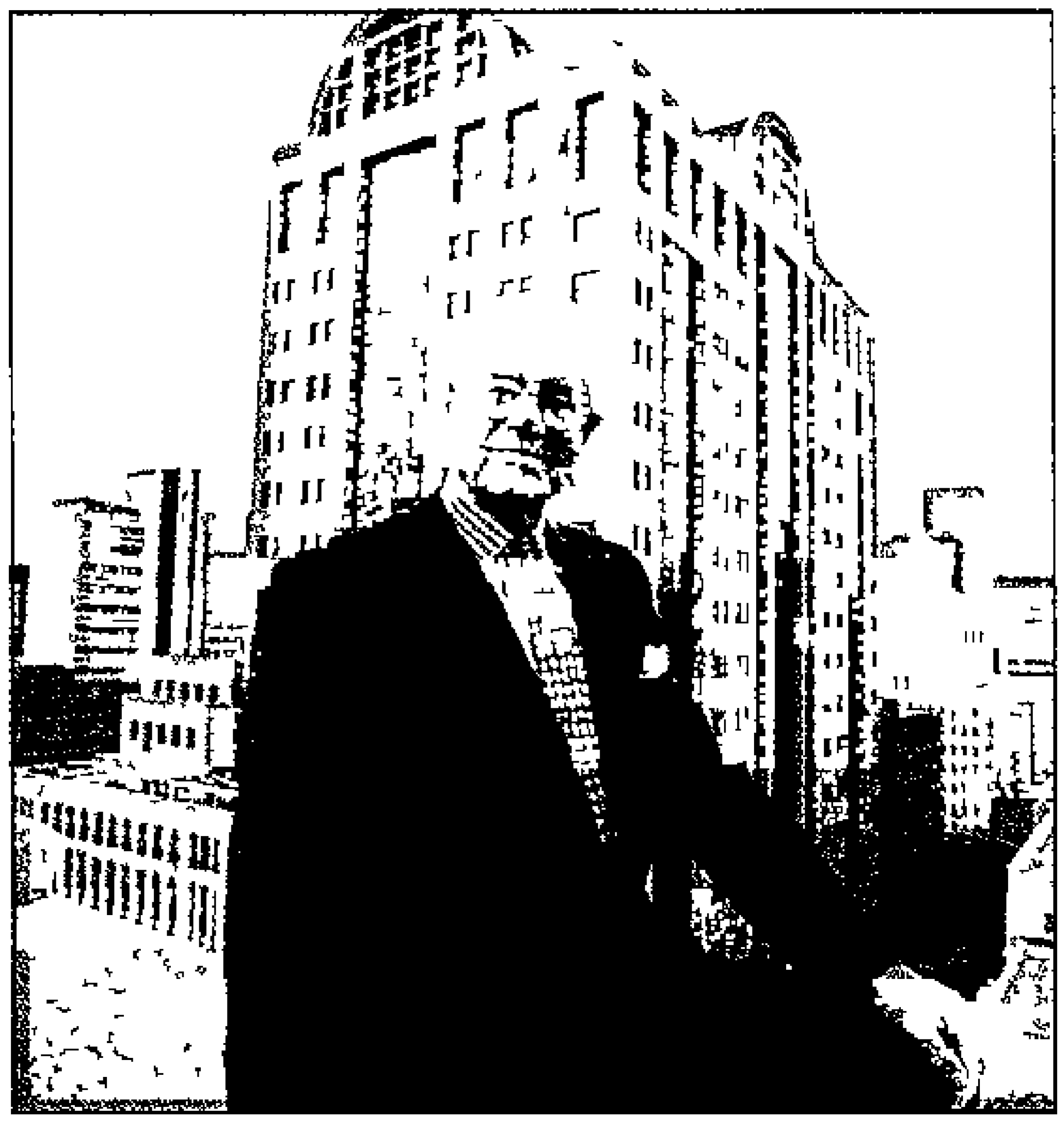
The telling statement by chairman Julian Ogilvie Thompson in his review concerns the

De Beers



SOURCE I NET

future expansion of SA diamond output where, he says, there is potential for increased production by increasing shifts and introducing continuous operations as well as various process changes, in particular at



Julian Ogilvie Thompson there is potential for production to be increased

Venetia, Finsch and Premier

"For the longer-term, the economics are being examined of further deepening certain of the underground operations, of reopening pipe mines in the Northern Cape and Free State and of re-treating dumps, notably in Kimberley and at Jagersfontein," he says

This follows last year's announcement that the Orapa mine in Botswana would double its output at a cost of Pula 1,34bn, adding another 6m carats to its annual production from 2000

Diamond surplus? What diamond surplus? is the obvious reaction to these developments given the earlier concerns that, failing a settlement with the Russians, surplus diamonds would flood the market

Evidence supports the view expounded last year by Standard Equities analyst James Picton that a diamond shortage looms

Picton expects a shortage by 2000 because of falling Russian production, the run-down of Russian stockpiles and lower output from other major suppliers such as Australia's Argyle mine, which recently cut its forecast on this year's production to 36m carats from last year's 42m carats If so, it could not come at a better time for De Beers, which has suffered over the past two years from the Winter War "

The diamond stock has kept growing though at a slower rate It was US$4,7bn at December 31, up from the year ago $4,67bn, long- and medium-term liabilities were R4,3bn (R4bn) In dollar terms, liabilities were $922m ($1,1bn)

What should worry De Beers is its relationships with the diamond suppliers who are still subject to a 15% cut in their CSO diamond supply quotas when De Beers' shareholders are benefiting from better times through increased dividends

The Russians have still not signed the renegotiated marketing deal, though every indication is they soon will But De Beers may now have another marketing problem to deal with in Zaire Still the feeling in the market is that De Beers is back in control after a shaky two to three years and that the short- and medium-term futures look promising

Not only would a diamond shortage allow De Beers to gain market share, it also means the new producers entering the market could be absorbed

The first three sights this year have been good with Picton estimating diamond sales from them at about $1,75bn compared with $1,25bn for the first three sights last year He is forecasting total CSO sales of at least $5,2bn for the year That would be 8,3% up on 1996, which in turn was 7% up on 1995

Picton is forecasting good growth in EPS for this year and next from the core diamond business after stripping out exceptional items such as De Beers' share of the profits of the Johnnic and JCI sales

His view is the share price may consolidate in the mid-R160 range after its surge since the end of December, but he remains bullish on De Beers

Brendan Ryan

MINORCO

Funding huge expansions

New mining ventures will drive the next growth phase

Chairman Julian Ogilvie Thompson's review confirms the opinions of most analysts — that Anglo American's international arm is looking at a year or two of quieter times before its major developing mines in South America kick in

Ogilvie Thompson says the coming year will be one of "consolidation" but adds that "though the successful development of our major mining projects will be our main focus for growth we will continue to seek acquisition opportunities that will further strengthen Minorco's competitive position across our various businesses "

One such opportunity now is the privatisa-

Kabila dumps De Beers

M+G (BM) 2-8/5/97 (216)

The Zairean rebels' decision to jettison De Beers has placed the diamond cartel on an even shakier footing, reports Chris Gordon from London

Laurent Kabila: Sent his finance minister to end the De Beers diamond contract PHOTOGRAPH RODGER BOSCH

Julian Ogilvie Thompson. De Beers is losing its grip on the diamond industry PHOTOGRAPH RUTH MOTAU

LAURENT KABILA'S Zairean Rebel Alliance for Democratic Forces has terminated De Beers's contract to buy the output of the country's diamond parastatal Miba (Société Minière de Bakwanga)

This blow to De Beers's control over central African diamond production follows two weeks of talks between the rebels and senior De Beers executives De Beers's London office acknowledged this week that the contract had been rescinded, though its Johannesburg headquarters declined to comment

The rebels — who now control Zaire's diamond-producing regions — had previously warned they wanted to end De Beers's monopoly in Zaire and with it cut President Mobuto Sese Seko's last source of revenue His income has been derived mainly from diamonds over the past few years

The alliance late last week put De Beers on three months' notice for the Miba contract, citing its ties to Mobuto and corrupt business practices — a charge denied by Andrew Lamont, representative for De Beers in London.

De Beers is also hedging its bets in Zaire For the present Mobuto is still president, and De Beers is still contracted to his government "The situation in Zaire is still fluid [De Beers will] ride with the change," Lamont said

De Beers is still talking to Mawampanga Mwana Nanga, Kabila's designated finance minister, on sales from Miba when the contract ends

The corporation's drubbing in Zaire is the latest in a series of blows to its control over the gem industry which it exercises through its Central Selling Organisation (CSO)

The CSO has contracts to buy the bulk of world diamond production, and artificially buoys prices by controlling supply

But of the top seven diamond producers in the world — who account for 80% of the world's rough diamond supply by value, according to De Beers's latest annual report — four are now no longer securely in the organisation's net

Australia's Argyle diamond mine, the world's largest diamond producer by volume, quit the CSO last July, claiming it could secure better prices on the open market

Russia, long a thorn in De Beers's side, leaking high-quality diamonds worth $1-billion a year onto the market, has also still to renew its sales agreement with the CSO, 14 months after signing a memorandum of understanding with De Beers that it would

Zaire punches another hole in De Beers's control over low quality gems Its neighbour Angola — a top-quality gem producer — has already reduced its dependence on the CSO, seeking other buyers alongside De Beers

Such moves could prompt a radical reshape of central African diamond supplies, with De Beers, uncharacteristically, having to follow rather than lead

The three other main producers are South Africa, Namibia and Botswana — where De Beers maintains close control over all production

The output from Miba is industrial and near-gem diamonds — 6,5-million carats last year valued at $80-million De Beers is also a shareholder in Miba, through its stake in Sibeka, a Belgian company which owns 20% of Miba

However, Miba's output is only a fraction of Zaire's estimated diamond production of $350-million

It is difficult to calculate Zaire's diamond wealth much of the production is sold locally to the licensed buying offices or smuggled out to Antwerp An unknown proportion of this consists of smuggled Angolan diamonds, much of which come from the Unita opposition party

De Beers closed its four buying offices in Zaire — Kinshasa, Kisagani, Mbuji-Mayi and Kahema — as the rebels advanced

The organisation then refused Alliance requests that it reopen the offices — a move which left the field open to Jean Boulle's America Diamond buyers, currently the only licensed diamond buying office in Kisangani, which is buying gems worth about $100 000 a day

De Beers's manipulation of low-quality diamond prices via several harsh price cuts has enabled it to combat Argyle's defiance and may go some way to cushioning it against Zaire

Angola is a different story, however Its mainly gem-quality diamonds were valued at around $1-billion last year The CSO was forced to buy $800-million of these gems on the open market to underpin the prices it was targeting through its normal cartel operation

De Beers chair Julian Ogilvie Thompson said in the latest annual report that De Beers had been hit by the "increasing uncontrolled outflow of Angolan diamonds to the major cutting centres Angolan diamonds tend to be in the categories that are in demand"

Diamond industry being transformed

(216)

Shareen Singh

THE SA diamond industry is in the process of transformation, but the pace of change may be slower than in other sectors of the economy because of the complex nature of the industry, says newly appointed Diamond Board CEO to the Diamond Board Victor Sibiya

The diamond board, which is appointed every five years, is responsible for granting diamond dealing licences and permits and regulating the industry Certain changes in the industry had already started to surface and "these initiatives would impact positively on the industry", Sibiya said Among these were the recent sale by De Beers of 44 holdings to small-scale miners as "a black empowerment exercise" and the involvement of the Mineworkers Investment Company (MIC) in the diamond business

Black involvement in the diamond industry up to now has been confined mainly to mining "It is important for blacks to acquire other specialised skills such as cutting, polishing, merchandising and evaluation, and move up the ranks to become dealers," Sibiya said. He believed it would not be too long before De Beers granted a diamond sight to a black company

Sight holders are entitled to purchase rough diamonds directly from De Beers' Central Selling Organisation — a privilege which the diamond cartel has been very selective in granting There are only 16 sight holders in SA and about 160 worldwide

MIC has held informal discussions with De Beers about acquiring a sight and formal talks were in the pipeline, a company source said

BD 5/6/97

Moscow's diamond thaw opens way for De Beers

(216) CT(BR) 8/6/97

From Reuter

Moscow — The Russian government has signed a decree on diamond export quotas that will free up exports until the end of the month, a senior official at Russia's main diamond producer Almazy Rossii-Sakha (ARS) said yesterday

He added that a long-delayed gem trade deal with De Beers, the diamond conglomerate, had not been signed, but that he hoped President Boris Yeltsin would give final approval for the deal in May or June

In a separate development, a Moscow-based De Beers official said the firm was looking to jointly develop a diamond mine with Russia's Severalmaz

Safonov said De Beers would also be allowed to export gems from Russia up until the end of this month under the decree, which ARS officials said was signed late in April

"De Beers will also be able to export gems they have bought from us so far this year," he said

De Beers bought diamonds from ARS during the first four months of 1997, but had been unable to export them because no diamond export quota decree had been signed The South African company sharply curtailed its purchases of Russian diamonds at the end of last year because Moscow failed to communicate its position on a draft trade agreement submitted in October 1996

Both ARS and De Beers are keen for the deal to go through, but have been frustrated by the government's failure to deal with the issue

Mercenaries grab gems

(216) M+G (Pam) 9-15/5/97

De Beers has lost another lucrative source of African diamonds This time to a new contender linked to mercenary group Executive Outcomes. Chris Gordon reports

Digging for diamonds: Angola sells an estimated R1-billion worth of high-quality gems a year PHOTO JOHN LIEBENBERG

BRANCH Energy Angola, the company linked to South African mercenary operation Executive Outcomes, has received a new mining concession from the Angolan government, making it one of Angola s most significant — and valuable — mining operations

The concession — coming after a few months of strained relations with the Angolan government last year — threatens to knock yet another jewel out of the De Beers's diamond crown Angola is one of the world's top producers of high-quality gems, with diamond sales worth an estimated $1-billion a year

Branch Energy Angola is a subsidiary of DiamondWorks Angola in turn a subsidiary of a Canadian company listed on the Vancouver Stock Exchange.

By November, Branch Energy's operation in Angola had reached a low point. The company had to decide whether to expand or pull out, only months after their concession was formally agreed by the Angolan government.

The arrest of 21 of Branch Energy's operatives in their Luarica concession, before access had been granted last September, was followed by reputed difficulties with the government over the formation of DiamondWorks

Branch Energy's response was to offer the government an upgraded operation, using the capital from the DiamondWorks flotation

The company put in additional strategic infrastructure, and reorganised its management. It bought an Ilyushin 76 and installed a powerful telecommunications system in Luanda linked to the Johannesburg telephone exchange

Saurimo, in the diamond-rich Lunda Norte province, will become a customs post so mining equipment can be flown in direct from South Africa.

The objective, according to Branch Energy, is to provide logistical support for companies wanting to invest in Angola, as well as supporting Branch Energy's own expanded operations

This strategic approach extends to mining, which the company describes as "security-led" Teleservices, the Executive Outcomes-owned Angolan security firm, is sent in first to secure the mining areas, before mining operations commence

Branch Energy's own diamond security in Luo is headed by JC Erasmus Like many of Branch Energy's South African staff, he is a former member of apartheid South Africa's notorious Civil Co-operation Bureau death squad

Erasmus is also a shareholder in DiamondWorks Asked about Branch Energy's relations with Executive Outcomes, he described them as "good friends"

The diamonds from Luo are valued at $400/carat by DiamondWorks, with diamonds from the Luarica concession valued at $600/carat. They expect to produce 10 000 carats a month.

Branch Energy's latest acquisition is the vast Alta Kwanza concession — 18 000km² region in Bie Province, Unita's heartland Bie Province is thought to have been mined by the Angolan opposition group since the early 1980s Relations with Unita are said to be amicable.

Luo is Branch Energy's first operational diamond mine although their earliest diamond mining concession was the 1995 contract for the Koidu kimberlite pipe in Sierra Leone The contract was awarded over the heads of Sunshine Mining and Diamond Fields Resources, then headed by Jean-Raymond Boulle, whose America Mineral Fields appears to be emerging as the victor in the mineral rush into Zaire. Boulle has forged close relations with the rebels of Laurent Kabila.

At the time this contract was signed, links between Branch Energy's mining operations and the South African firm Executive Outcomes's holding company, Strategic Resources, became public, with press reports in London disclosing that Executive Outcomes held a 40% share in Branch Energy s Sierra Leone operation Branch Energy has always denied that any corporate links exist between itself and Executive Outcomes

Branch Energy has been linked to Executive Outcomes in Angola and, most recently, in Papua New Guinea In each case, the intervention has reportedly been by contact at governmental levels and aimed at wiping out rebel movements who occupy rich mining areas.

In the two African cases, a mining concession for Branch Energy has followed. The Papua New Guinea operation failed Executive Outcomes underrated the response to this operation

One Luanda-based diplomat, asked why there should be any concern about the linkages, said investors will be happy to know their stake is well-protected

Rebel leader opens Zaire to world business

Kabila 'no' to Anglo and De Beers

CT(BR) 12/5/97 ~~365~~ 216 ~~210~~

GUY OLIVER

Lubumbashi, Zaire — South African conglomerates Anglo American and De Beers will not enjoy any special privileges in Zaire, Laurent Kabila, the leader of the rebel alliance controlling the bulk of the central African country, said at the weekend.

Kabila's snub of the South African mining houses came during a face-to-face chat with about 30 investment bankers and fund managers from the US and Europe, during which he said Zaire would be opening soon to international business

The bankers were brought to Lubumbashi by American Mineral Fields (AMF), which in a $1 billion coup secured some of the vast country's prize mining concessions, wrong-footing its South African rivals, Anglo American, Gencor and JCI. AMF made an offer directly to Kabila's Alliance of Democratic Forces for the Liberation of Congo (AFDL).

Kabila accused Anglo American and De Beers of exploiting Zaire in the past without contributing to the country's development "Nobody should take anything without leaving anything It is rape. We should share," Kabila said.

"We have talked to De Beers and Anglo and told them we have the same policies towards them They must develop "

Kabila cited Miba, the state-owned diamond company, as an example of mining rape. "Around those immense riches there is serious poverty."

De Beers has a contract to buy Miba's diamond output and is also one of several companies with various diamond buying offices around Zaire.

A De Beers spokesman said the "situation was still fluid" in Zaire, and there were still negotiations between De Beers and Kabila's forces. A De Beers official, Nick Davenport, was in Lubumbashi at the weekend

Florent Kambale, the rebels' mining minister, also spelled out the rebels' resentment of conglomerates, accusing them of having no social responsibility

He said Kabila's government, which in a seven-month whirlwind offensive has overrun 95 percent of Zaire, with only Kinshasa remaining to be claimed, favoured competition.

Analysts, invited by AMF to Lubumbashi, regard Toronto-listed AMF's $1 billion deal to exploit copper and zinc reserves as a reflection of South African conglomerates' arrogant belief that Africa was theirs for the taking.

The tide of war has resulted in the positive sentiment that Anglo and De Beers once enjoyed under the regime of President Mobutu Sese Seko as turning sour.

An official of Gecamines, the Zairean mining parastatal, said Anglo was "more than upset" by AMF deal

Jean Ramonde Boulle, the AMF chairman and a former De Beers employee, said his company planned to build a zinc smelter with a yearly capacity of 200 000 tons

Dispute with govt stalls Alexkor's restructuring

BD 20/6/97 (216)

Reneé Grawitzky

THE privatisation and restructuring of Alexkor, a diamond mine in the Northern Cape, was suspended by the mine's restructuring committee yesterday and it declared a dispute with government and Alexkor's board.

The committee said the dispute arose when Public Enterprises Minister Stella Sigcau ignored its recommendations on corporate governance and announced a new, non-negotiable management structure

Sources close to the process said four board members who did not agree with the decision were considering resigning over this issue. The committee consists of representatives of Alexkor management, labour, community and provincial government

Diamond analysts warned the dispute, which could stall restructuring, placed the mine's future in jeopardy as it was unclear whether reserves could extend beyond six months

The mine's poor financial position could be exacerbated by the high level of diamond theft

Industry sources said international syndicates operating out of Port Nolloth smuggled out about R130m worth of diamonds annually from west coast mines, including Alexkor.

The committee said about R5m worth of diamonds were smuggled from the mine last weekend. An industry source estimated that between 20% and 40% of Alexkor's total turnover was smuggled from the mine and production was down to 30%.

Robyn Chalmers reports that Sigcau said it was not within the mandate of the committee to declare a dispute over a corporate governance issue

"It is the clear mandate of the shareholder (government) to deal with corporate governance," she said

She declined to comment further.

The committee said Sigcau had made a management decision by which she would implement what she regarded as an informed management structure, which in fact was nothing more than a repetition of a structure implemented and scrapped two months ago because it was not working

The committee proposed a structure whereby an interim management team could be brought in to assist current management to recover the situation and bring the mine back on track

A diamond analyst said government was dealing with a mine on its knees. The restructuring committee could either be seen to be part of the problem or solution. However, the mine's life depended on proper management. Two Alexkor chairmen had resigned in the past year while numerous top management reshuffles had occurred, with some being fired or resigning. The committee said the current management was incapable of running Alexkor

Diamond Board's Sibiya still in the dark after ruling

CT 21/5/97 (216)

RECALLED *Gerhard Binderman*
PHOTO JOHN WOODROOF

FRANK NXUMALO

Johannesburg — The future of Victor Sibiya, the chief executive officer of the South African Diamond Board, was still unclear yesterday after the high court ruled that a government decision to dismiss the board's former chief executive was invalid

Judge Edwin Cameron ruled last week that the decision by Penuell Maduna, the minister of mineral and energy affairs, to fire Gerhard Binderman, the board's former chief executive officer, in November last year, was illegal Binderman was reinstated to his position by the court ruling

"I was dismissed from a position I had held for 11 years without any explanations or consultations," Binderman said yesterday

A source close to Binderman said the reinstated diamond board head had just come back from lunch to find a letter signed by the minister stating that he had been dismissed from his position

The letter did not provide any explanation, the source said

Binderman said the reason advanced for his abrupt dismissal, on two months' pay, was that the minister was reorganising the board

However, "we argued that the CEO could not be dismissed as result of internal reorganisation", Binderman said.

The minister is entitled to dismiss the chief executive officer in certain circumstances, but the court ruled that an internal reorganisation did not meet the criteria

"I think justice was done in my case. This has also restored my faith in the South African judicial system," Binderman said

Binderman said although he had been legally reinstated, he had yet to be actively returned to his former position "That is still to be decided, but they can negotiate a severance package with me, if they so prefer"

Fungi Motswene, a spokesman for Maduna, said the minister had no comment to make on the case at present, but he would abide by the court's ruling

Gem rise gives ODM a shine

BD 30/5/97 (216)

Samantha Sharpe

CAPE TOWN — Ocean Diamond Mining (ODM) almost doubled after-tax earnings to R12,5m in the year to March, boosted by a healthy increase in diamond production and the devaluation of the rand against the dollar

The robust earnings growth was accompanied by a 106% surge in share earnings to 33c — fully diluted share earnings were 93% higher at 29c A preference share dividend of R450 000 was declared based on the issue price of the group's 6% noncumulative convertible preference shares.

ODM MD Andre Louw said expectations for the forthcoming year were that existing operations would continue along similar levels, although "exciting projects, if found viable, would be added to the group's portfolio"

Higher production volumes and depreciation of the rand against the dollar were key factors behind a 16% increase in turnover to R44m, with diamond output up 9% to 57 021 carats.

Louw said the increase in turnover, better capacity utilisation and higher productivity resulted in an operating profit before exploration costs and royalties, of R20,2m compared with a previous R13,1m. This was despite rising fuel and labour costs.

Louw said increased profit had led to a R14m net increase in cash, which brought the group's cash balance to R39,9m by the end of the year

He said that with allocation of new prospecting licences in Namibia last year, ODM accelerated its exploration programme significantly. Exploration expenditure increased 39% to R7,6m. In addition, ODM purchased its own dedicated geophysical survey vessel to the value of R1,2m in January

CT (BR) 30/5/97

Ocean Diamonds doubles profit

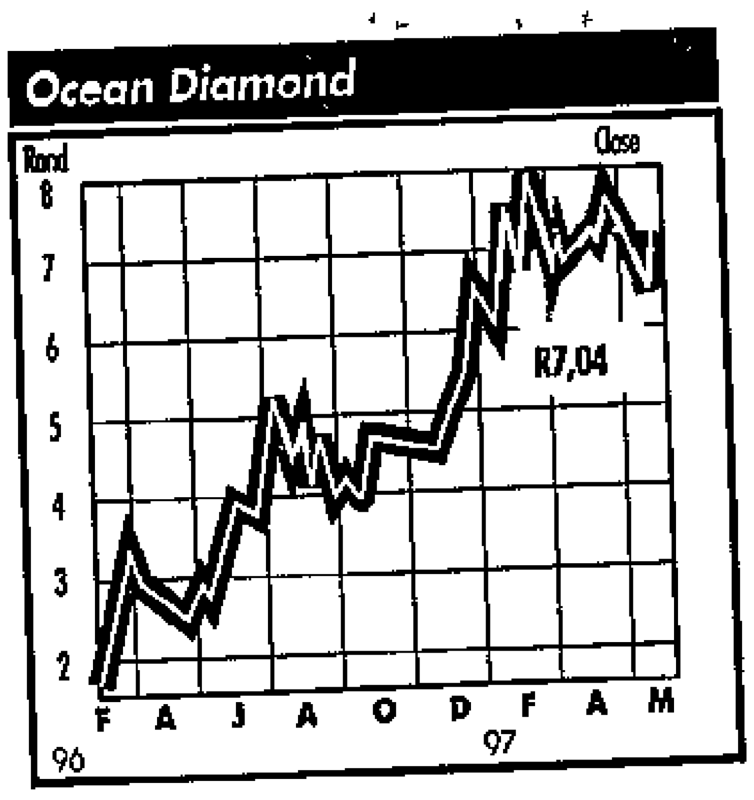
(2ib)

Marc Hasenfuss
CAPE EDITOR

Cape Town — Ocean Diamond Mining Holdings (ODM), which operates in marine concessions off Namibia, nearly doubled after-tax profit to R12,5 million in the year to March 31 as a result of higher production volumes and effective cost control, the company said yesterday Earnings a share were 33c (16c), but no dividend was declared

Andre Louw, the managing director, said total production from Namibian operations was up 9 percent to over 57 000 carats

He said the higher production and depreciating rand-dollar exchange rate helped turnover rise



15,5 percent to R44 million

Louw said improved capacity utilisation and better productivity bolstered margins markedly and led to operating profit (before government royalties and exploration expenditure) rising 54 percent to R20,2 million

Namibian government royalty amounted to R4,8 million and exploration costs increased to R7,6 million after the allocation of new prospecting licences These costs were partly offset by interest earned, which more than doubled to R4,8 million

Louw said the bulk of ODM's diamond production from the Namibian Gem mining vessel comprised better-quality gems, which enjoyed good international demand throughout the year

He said during the first quarter of this year the company's diamonds were sold at over $200 a carat, indicating a firming in prices of its goods

□ Business Watch

Diamond prices add sparkle to bottom line

(216)

Samantha Sharpe

BD 2/6/97

CAPE TOWN — Diamond producer Trans Hex lifted attributable income 54% to R59,3m in the year to March, after strong diamond prices and the weaker rand added sparkle to its bottom line

The income figure was accompanied by earnings a share after exceptional items of 393,5c compared with 255,3c at the same time last year — stripped of exceptional items share earnings were 40% higher at 374,8c — and a final dividend of 65c from 47c earlier.

MD Niel Hoogenhout said the group's operational performance should be maintained at the high levels of the past year.

"Trans Hex has a track record of producing stable and satisfactory results, and will strive to do so in future. Diamond exploration efforts should result in Trans Hex becoming a significantly larger player in the world's diamond mining business within the next five years."

Turnover from the diamond division surged 32% to R227,5m, with a 6% increase in its lime operation turnover bringing this contribution to R33,9m

Hoogenhout said excellent prices from diamonds sold in Belgium and SA and the depreciation in the rand were key factors behind the growth, which was despite a fall in total carat production because of the closure of lower value producers

Diamond production from continuing operations was maintained despite a three-week strike which started at the end of May last year. Commissioning problems at a new calcining facility in Vredendal affected lime volumes

"The establishment of THI in Toronto (listed in December) is a significant step in the continuing globalisation of the group" However, exchange control regulation remained the major obstacle to SA investors taking part in global markets, he said

Dealers expect De Beers to shine

(216)

BD 3/6/97

Neil Behrmann

LONDON — De Beers expected to achieve impressive first-half turnover following continual growth in sales during May, dealers said

New York diamond dealer Rapaport has raised its polished diamond prices and estimates that De Beers sold $550m in the May "sight".

This sale out of five sights that take place in the first six months, follows estimated turnover of $1,75bn in the first quarter Since the remaining sight was expected to exceed $500m, first half turnover of De Beers rough diamonds should exceed last year's levels of $2,75bn, dealers said.

Moreover, if sales proceed at the present pace, De Beers diamond sales this year would exceed $5bn for the first time, dealers said.

Jeremy Pudney, De Beers consumer and marketing director, said in an interview with Rapaport that the diamond campaigns had expanded to 34 countries

The De Beers 1997 consumer marketing budget, including market research, was $200m, he said.

North, and to a lesser extent South America, accounted for 37% of the budget; Europe 16%; Asia-Pacific 20%; Japan 21%, and Asia-Arabia 6% Besides China, new marketing programmes included India, Saudi Arabia, United Arab Emirates, Kuwait, Oman, Bahrain Qatar, Pakistan and Turkey.

Last year De Beers launched a small scale campaign in Colombia, Chile and Argentina, carried out from the company's Mexican diamond promotion and information centre. Vietnam would be another target this year.

De Beers chooses markets that have a large population, a good economic growth track record and prospects, a strong, existing gold jewellery culture, low marketing costs; and low industry and trade margins, said Pudney

He was not concerned about possible saturation in the US, Europe and Japan "There is a positive correlation between ownership and purchases, indicating that the more pieces of diamond jewellery a woman owns, the more likely she will acquire again"

In the US for example, only 5% of non-owners purchase diamonds each year At the other end of the scale 28% of women who own 10 or more pieces will buy this year

"The main difference in strategy between mature and new markets is that in new markets we have to build awareness of the diamond dream which exists elsewhere" We want the heavy buyers of gold jewellery to add a diamond to some of the many gold pieces they already buy, he said

De Beers, union agree to refer dispute to commission

(216) BD 5/6/97

Reneé Grawitzky

DIAMOND industry talks ended in dispute yesterday with the parties agreeing to refer the matter to the Commission for Conciliation Mediation and Arbitration (CCMA), while consensus has yet to be reached on retrenching 7 000 miners at two JCI gold mines

The National Union of Mineworkers (NUM) and De Beers said there was no purpose served by further meetings and agreed to refer the wage dispute to the CCMA.

A 1% increase effectively divides the parties with De Beers offering a 9% increase plus a 1% service increment and the union demanding 10% Besides wages there are a whole range of outstanding issues where agreement has yet to be reached.

At the outset the union demanded the scrapping of job category A1 with the proviso that workers be trained to carry out jobs at the next level. De Beers said it would agree to this only through a process of reorganising and redesigning of work. The scrapping of the first level would mean raising the minimum wage to R1 629 a month

Despite extensive negotiations on a extended three-year wage agreement, NUM reverted back to a one-year agreement after disagreements developed over conditions applicable to such an arrangement

The NUM said there were a number of other issues standing in the way of a settlement including the discontinuation of a Saturday premium, 10 days paid leave for union business, the separation of merit increases from negotiated increases and granting a blanket agreement allowing De Beers to apply for exemptions from the proposed new Basic Conditions of Employment Bill.

Meanwhile, uncertainty still surrounded the planned retrenchments at Randfontein Estates and Western Areas yesterday as retrenchments at Randfontein did not go ahead this week as planned after meetings between management and the NUM It was still unclear whether agreement had been reached to suspend retrenchments until the end of the month

NUM president James Motlatsi said retrenchments were unavoidable but could be minimised by the adoption of alternatives.

He said more time was needed to prepare those who faced retrenchments and to consider alternatives

Probe into Alexkor affairs urged

BD 9/6/97 (216)

Reneé Grawitzky

THE National Union of Mineworkers (NUM) has called for the mismanagement of Alexkor diamond mine, which had resulted in a loss of hundreds of millions from state coffers, to be referred to the auditor-general for investigation

The union announced last week that as well as a probe by the auditor-general, the functions of the mine's management should be suspended pending the outcome of a commission of inquiry.

The call came in the wake of the dispute declared against government by the mine's restructuring committee consisting of labour, government, community, management and provincial government representation.

The NUM said the dispute effectively related to the inability of the management to run the mine and the lack of technical skills and understanding of the board of directors. The union said two independent reports conducted by the Mineral and Energy Policy Centre and De Beers had come to the same conclusions.

Public enterprises ministry spokesman Wandile Zote said yesterday the ministry was investigating allegations made by the restructuring committee. The allegations were not new and were known to the ministry. It would respond at an appropriate time, Zote said

The level of the mismanagement had been borne out by the currently precarious position of the mine, the union said In 1994 the mine had made a R27m profit, but by the end of this financial year was expected to make a R35m loss

The union said the situation was further exacerbated by the continued loss of 40% of turnover through diamond theft This compared with the loss of between 5% to 10% of turnover at other mines

Industry sources said that the mine's financial statements were problematic, and asked how government could sell it without detailed analysis of the true picture

De Beers' hold in Congo firming

BD 13/6/97 (216)

Tim Cohen

LONDON — De Beers' control over diamonds from the Democratic Republic of Congo remains tentative but its position appears to be firming amid allegations that it paid a premium for some stones emanating from the former Zaire

De Beers spokesman Andy Lamont said De Beers had bought three consignments of mainly industrial quality diamonds mined at Miba in Kasai province since the new government of President Laurent Kabila rose to power He declined to set a value on the purchases, saying they varied in size and price In addition to these purchases, one of which took place recently, De Beers had reopened several of its buying stations to purchase diamonds from alluvial concession areas

A report in the Wall Street Journal said that during Kabila's advance on the capital, rebel forces seized a shipment of diamonds in the town of Mbuji Mayi which it offered to the newly established America Diamond Buyers' organisation of Jean Ramond Boulle Boulle is also the largest shareholder of American Mineral, which recently won a contract for a copper and cobalt project, angering Anglo American, which claimed the tender process had not been adhered to

At the time a team from De Beers flew to Goma to negotiate with the rebels and according to the journal report, Finance Minister Mawampanga Mwana said afterwards the diamonds were bought for $5m

Sources said the actual value of the diamonds was much less, probably about $3m, which might imply De Beers was paying inflated prices to secure its position while at the same time contributing to Kabila's war chest

On the value of the purchase, Lamont said "We obtained the goods at a fair price" However, he would not say whether the price included a "goodwill" component He insisted the money was paid to a legitimate authority

Contrary to reports that the meeting was argumentative, with accusations and counter accusations being traded about the legality of the then rebels' actions, Lamont said De Beers representatives found the rebels to be "cordial"

On the state of future relations, Lamont said only that the situation remained fluid and talks were taking place between the new government and De Beers Last year 6,5-million carats of diamonds worth $70m had been mined in the Congo, compared to the global total of 107-million carats worth $4,8bn, he said

De Beers had an exclusive contract to purchase diamonds from the Miba mine, but this contract was still the subject of discussions with the new government.

Congo retracts SA 'rape' claims

CT(BR) 18/6/97 (~~358~~) (~~214~~) (216)

JONATHAN ROSENTHAL

Grand Baie, Mauritius — Florent Mututulo, the minister of mines of the Democratic Republic of Congo, this week played down his government's previous statements that mining houses Anglo American and De Beers had raped Zaire. "They cannot rape people who do not want to be raped. We don't want a monopoly, perhaps that is why there is a clash between De Beers and the government."

He said his government would allow the companies to continue operating, but it would renegotiate its contracts

"There is no question of us saying this agreement was signed by the previous government and therefore it must fall away Those who are already working can keep on working, but they must show us the contract."

He said the government had found "funny things" in some contracts, and it wished to impose social obligations on companies which had found people barefoot and left them barefoot after 30 years of mining.

GEMSTONES *A national monument starts a new life today*

After 50 years, a diamond jubilee

CT (BR) 19/6/97 (216)

JONATHAN ROSENTHAL

Grand Baie, Mauritius — Kanteen Koppie, a 110-year-old mine in the Northern Cape which has been declared a national monument, should yield its first diamonds this week after more than 50 years, under a pilot project established by the African United Small Mining Association, a spokesman said yesterday

Gamza Gool, the association's spokesman, said Kanteen Koppie was the one of South Africa's earliest alluvial diamond diggings It was operated by small groups of independent miners from 1886 until it was shut down under pressure from De Beers in 1940, Gool said

The association lobbied for nearly a year to gain permission to reopen the mine, which is now protected by national monuments legislation, and started its first digging operations two months ago Screening for the first diamonds was scheduled to start today, Gool said

The mine is run by 100 miners organised into groups of 10 A company owned by the miners excavates and sifts the gravel, which is then passed out to the 10 groups, who screen it for diamonds Representatives of the association will register each diamond, ensure that no smuggling takes place and appropriate taxes are paid

Digging is confined to areas outside the old workings, but Gool said the association had been told they would be given permission to reopen the old mine itself if sufficient diamonds were found

He said the association was applying for permission from the Richtersveld council to start a similar mining operation on state land in the Northern Cape The new operation would provide employment for about 400 miners from Port Nolloth

Diamond mining in the area is currently dominated by listed mining companies and the state-owned Alexcor "It's a disgrace if you look at Port Nolloth," Gool said

"All the wealth is going out, (and) a lot of diamonds are being bought illegally so no taxes are being paid"

SA NEWS DIGEST

DIAMONDS

Record sales as De Beers benefits from competitors' hardships

216

CT (BR) 19/6/97

The Central Selling Organisation (CSO), the selling arm of the De Beers diamond conglomerate, said yesterday that sales of rough gem diamonds rose [illegible] percent to a record $2,88 billion in the first six months of this year. Sales amounted to R12,92 billion, 18,04 percent or R1,98 billion up on the first half of last year. Second half sales were expected to be lower, however, [illegible] relationship between first and second [illegible] organisation said.

[illegible] first half [illegible]ected the strength of [illegible] distribution network and increased market share [illegible] delays have served to limit Russian exports and [illegible] diamond activity as a [illegible] situation [illegible] higher than normal seasonal rainfall, the company said. The civil [illegible] in the former Zaire had also disrupted supplies to the outside [illegible]. — *Reuters, Johannesburg*

De Beers' diamond sales figures shine

BD 19/6/97 (216)

Neil Behrmann

LONDON — Diamond sales by De Beers' marketing arm, the Central Selling Organisation (CSO), rose to a record $2,88bn in the first half, 4,8% up on the same period last year

Helped by local currency depreciation, turnover rose by a more impressive 18% to R12,92bn in rand terms.

Antwerp dealers said while second-half turnover was normally lower because of the northern hemisphere's summer holidays and seasonal factors, De Beers was on course to exceed $5bn in sales this year. Last year's turnover was $4,83bn, 7% up on 1995's figure

A spokesman said sales improved because of a decline in exports from Russia, the world's biggest producer in terms of value, which helped the company improve market share

In addition, De Beers had benefited from a decrease in Angolan sales on the open market after Angolan forces entered the diamond fields There was continuing violence, and exceptional rains had hit an output estimated to average $1bn a year normally, he said.

Diamond industry sources said Angolan sales were only $200m this year

The De Beers spokesman said US retail diamond sales continued to steam ahead, with polished diamond imports jumping 14% to $1,64bn in the first three months. However, Japan was having a difficult year. Compared with the same period last year, Japanese polished diamond imports fell 28% to 1 065-million carats in the first four months, while the value dipped 31% to $590m and 20% in yen terms.

"Our market is not that buoyant because of bankruptcies in the Japanese jewellery industry," Antwerp diamond broker Marcel Pruwer said "There have been some polished price increases this year, but generally the market is flat" Demand for small, cheaper diamonds was increasing, but there had been resistance to higher-priced gems.

Luc Rombouts, MD of Antwerp diamond consultants Terraconsult, said the global trend was up and weak market areas like Japan were being offset by impressive sales in the US and Asia

AFRICAN

NEW CONGO *State to increase gem production and explore copper deposits*

Diamond mining regains lustre

(216) ET (BR) 20/6/97

MARIUS BOSCH

Grand Baie, Mauritius — Societe Miniere de Bakwanga, the Democratic Republic of Congo's state diamond company, said yesterday that it planned to increase industrial diamond production and explore large copper and nickel deposits in its concession area

Muya Katende, the president of the company, told the Sub-Saharan Oil and Minerals conference that if the mine could get sufficient power, it could produce about 7,5 million carats from next year

The mine produced over 6,5 million carats last year, but Katende said about 50 percent of production had come from stockpiles

"Diamond production could reach 7,5 million carats from next year onwards, but there may be a delay because of the destruction by the soldiers of the former president of Zaire," Katende said

Soldiers of the former Zairean government damaged some parts of the mine when they fled the advancing forces of Laurent Kabila, the new Congo's president.

Katende said the company was keen to explore and develop the copper, nickel, gold and chromium deposits in its 5 000km² concession in East Kasai province

"We believe that we have about 1,8 million tons of reserves of copper metal and somewhat less in nickel. What is quite amazing is that these deposits are only 15 metres deep, so they can be mined in low cost mining"

Katende said the company's reserves consisted of 153 million carats of industrial diamonds, while in rivers and alluvial areas there were reserves of about 50 million carats of gem diamonds

"Congo was the world leader in industrial diamond production We are no longer the world leader, not because we don't have any diamonds Diamonds can be found almost anywhere," Katende said

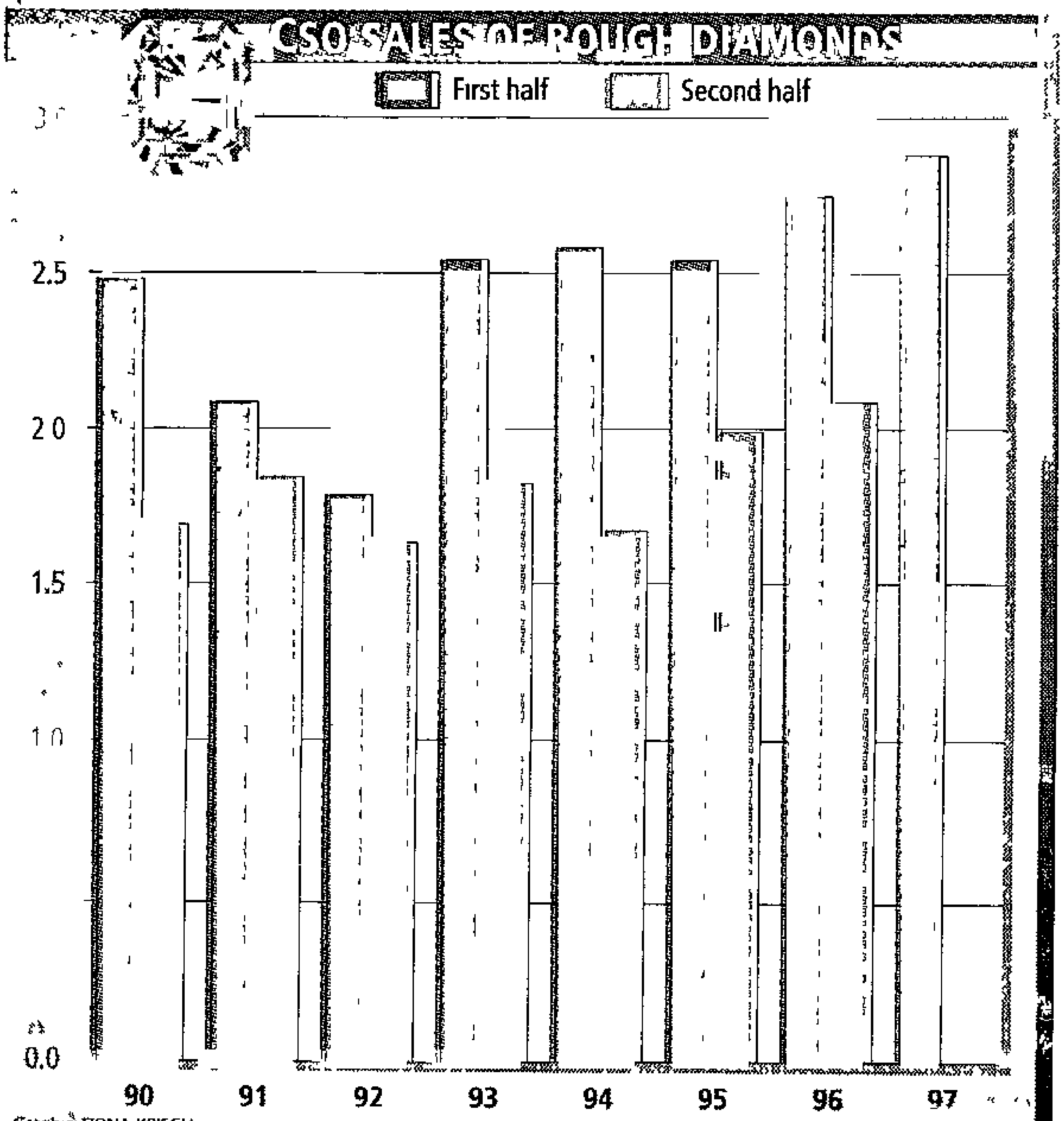
Alluvial diamond diggers produced about 15,4 million carats of diamonds last year.

Florent Mututulo, the country's mines minister, said the new Congo had vast diamond potential and many of the known deposits had never been subjected to modern exploration techniques

Mututulo said the new government had streamlined the process of granting diamond-buying licences, which took up to three months under the previous government.

He said Kabila's government had cut the cost of a licence from $300 000 to about $25 000 — Reuter

Sunday Times Business Times
June 22 1997



Graphic: FIONA KRISCH

De Beers gains from Russia's troubles

(216)

DIAMOND SALES

ST (BT) 22/6/97

By KENNETH GOODING

DE BEERS this week reported record first-half sales even though exports from Russia, one of the biggest producers, came to a virtual halt because of bureaucratic hold-ups

Supplies from two other substantial producers, Angola and Congo (formerly Zaire), dropped because of political turmoil in those countries

De Beers' London-based Central Selling Organisation said first-half sales of rough, or uncut, gem diamonds reached \$2 88-billion, nearly 5% higher than the previous record of \$2 748-billion in the same months last year Tim Capon, a De Beers director, said "The diamond market has not shot up It is simply that we are taking a greater share "

The CSO ended its contract with Russia in December, but still intended to buy from Russia But because Russia had not yet issued export licences, it had not been able to bring an anticipated five consignments to the West, said Capon The shortfall had been made up by extra SA output

De Beers would prefer Russia to rejoin the cartel on the right terms, said Capon But increasing output from Botswana, the biggest producer in value terms, and at other mines, as well as the fact that Russia's diamond stocks were dwindling, meant SA was better able to supply the market even without Russia

Analysts expect CSO sales to top \$5-billion for the first time this year, compared with \$4 8-billion in 1996 — *Financial Times*

De Beers suffers Russian gems seizure

ET (BR) 26/6/97 (216)

MIKE COLLETT-WHITE

Moscow — A possibly lengthy re-evaluation of Russian gems owned by diamond company De Beers threatens to tarnish further what has already been a difficult year for the firm in Russia's evolving diamond sector

Gems worth about $200 million, which were seized by customs officials last month, have been handed over to Gokhran, Russia's state strategic reserve and part of the finance ministry

Gokhran said the diamonds had been undervalued by Russia's diamond monopoly Almazy Rossii-Sakha, and is insisting on reassessing their price.

"The diamonds are with Gokhran, where they are undergoing what is called 'expertise'," said Raymond Clarke, the head of De Beers' Moscow office

A spokesman for Almazy Rossii-Sakha said the re-evaluation process could take several weeks to complete, but he hoped the issue would be resolved next month

De Beers owns about $150 million of the batch, with the remainder belonging to other companies including Almazy Rossii-Sakha, the company said

The sums involved are unlikely to bring either company to ruin, but the repercussions of the seizure on Russia's gem business could go much further than the holdup itself

Almazy Rossii-Sakha linked the gem seizure to a battle for control of the lucrative gem export market, previously dominated by trade agreements between De Beers and itself. But the spokesman refrained from blaming any particular parties.

"Yes, the confiscation of these goods is connected with an internal struggle for control of Russia's diamond export business," he said.

But he said Gokhran and Almazy Rossii-Sakha had reached an "understanding" on the problem — Reuter

De Beers holds talks with ministers

DD 27/6/97 (216)

DE BEERS Consolidated Mines, which has been operating with difficulty in Angola and the Democratic Republic of the Congo, organised meetings with both countries' mining ministers in the past week

Angolan Mines and Geology Minister Marcos Samondo met De Beers officials and visited group operations, including a diamond mine, while the new Congo's Mines Minister, Florent Mututulo, held talks with De Beers and other companies last Friday

De Beers spokesman Tom Tweedy said Samondo visited De Beers on his way to a meeting of Southern African Development Community (SADC) mining ministers in neighbouring Swaziland

"It was not any signing of protocols or anything like that ... It was one of those familiarisation things," he said.

"He (paid) a visit to group properties, he didn't only go to a diamond mine.

"He also went to a platinum mine and visited those operations," Tweedy said.

De Beers, which controls the world diamond market through its London-based Central Selling Organisation (CSO), has reduced activity in diamond-rich Angola because of higher rainfall and the deteriorating security situation

In the past month Angola's national army has seized control of at least 10 diamond-mining districts which were previously held by the opposition Unita movement, saying it is acting to stop an influx of former Zairean refugees flooding across the northern border.

But De Beers said it was still prospecting in the north. "We are still prospecting. The reported battles have not affected our operations," Angola director Ken Kempson said.

The state-run Endiama diamond firm said earlier this month that the country's diamond output could increase 70% if the diamond areas could be freed from Unita control

Since Laurent Kabila's takeover of the former Zaire, De Beers has been increasingly nervous about its operations in the country, where it held a contract with the former government to buy up production from the country's MIBA industrial diamond company.

The new Congo's mines minister held talks with De Beers, Anglo American, Gencor, JCI, and Iscor last Friday.

"He had some quite nice things to say about De Beers. He was quite complimentary about De Beers. I think now they are settling down in government, they see who delivers the dollars," Tweedy said

Mututulo said last week his government did not want monopolies in the mining industry and that it would renegotiate some existing contracts which it considered unsatisfactory.

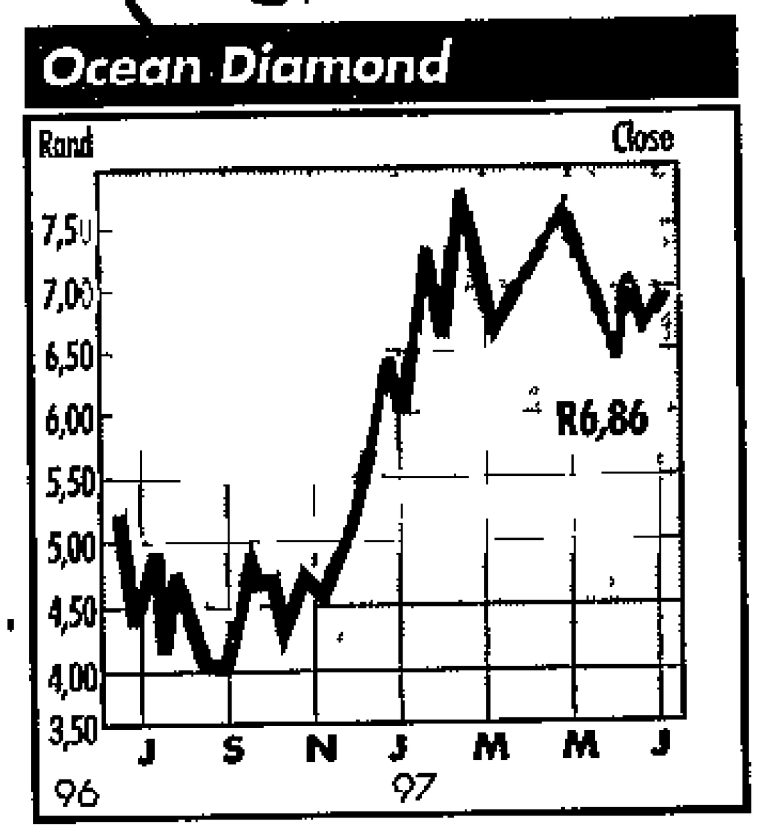
In 1995, Zaire was the second largest producer of rough diamonds in the world and Angola was listed sixth. — Reuter.

Oceandia produces 20% more than target

Better prices for haul of sea diamonds

CT (BR) 2/7/97 (216)

Maggie Rowley



Cape Town — Ocean Diamond Mining Holdings (Oceandia), the marine diamond company, exceeded its production targets by 20 percent in the first quarter of this year, according to Jo Consol, the company's financial director.

Consol said yesterday that 15 704,30 carats had been retrieved in the first quarter, and prices realised at the last two sales were well in excess of $200 a carat

He said the first sale had achieved $223 a carat while the second fetched $211 At an average price of $215 a carat these sales would have netted more than R15 million

Consol said the last three sales indicated they could expect a higher market price for the diamonds than had been achieved last year

"This was not unexpected as our prices have been under pressure for some time owing to market influences which are now settling down"

In the first quarter, the group's main mining vessel, Namibian Gem, spent the month of April in port for its annual lay-up

This had been budgeted for, and since her return to the mining area, the vessel had been on track to reach planned production

Total diamond production from Oceandia's Namibian operations for the past financial year was 57 021 carats, which represents a 9 percent increase on production

André Louw, the managing director, said they were optimistic about the year ahead based on the first quarter's figures, and exciting projects could be added to the group's portfolio in the coming financial year which would further support growth. They were confident of achieving their target of 52 000 carats for the year to March 31 1998

"Reconnaissance sampling by the Oceandia continued during the quarter, and several areas of interest have been identified and are being evaluated

"This further supports our optimism that deepwater areas could host substantial diamond resources," said Louw

MINING

David takes on Goliath of diamonds

FM 4/7/97

(21b)

AMF hopes its diamond mine investments across Africa will position it to challenge dominant position held by De Beers

Jean-Raymond Boulle, founder and largest shareholder of America Mineral Fields (AMF), the ambitious North American mining group, says he plans to create a major new diamond mining and exploration company to rival De Beers

AMF made the headlines in April when it pipped Anglo American Corp to the post by clinching the tender to develop the huge Kolwezi copper-cobalt mine with new Democratic Republic of Congo President Laurent Kabila Boulle values the Kolwezi ore body at US$16bn at current prices

AMF also has an exclusive agreement with Congo's Gecamines State mining group to conduct feasibility studies on the Kipushi mine, one of the world's largest zinc deposits, which Anglo walked away from last year

Boulle says his strategy is to set up a "large multinational diamond and precious metals company" by bringing together the skills and experience of various potential and current producers in North America, SA, Russia, Australia, Congo (former Zaire), Namibia and Angola

"We feel there is room for a new major player in the diamond market," says Boulle's brother Max, of AMF's management board, who also runs diamond-buying operations in Mbuji Mayi and Kisangani "Countries like Russia and the Democratic Republic of Congo want more competition in mining and marketing of diamonds "

The formation of the new company is "progressing well," says Jean-Raymond Boulle, who worked for De Beers until 1980 He formed AMF, which has a market capitalisation of C$180m on the Toronto Stock Exchange in October 1995 and was founder, CEO and chairman of Diamond Fields Resources (DFR), which discovered the world's largest nickel deposit at Voisey Bay, Labrador DFR was subsequently sold to Inco for C$4bn

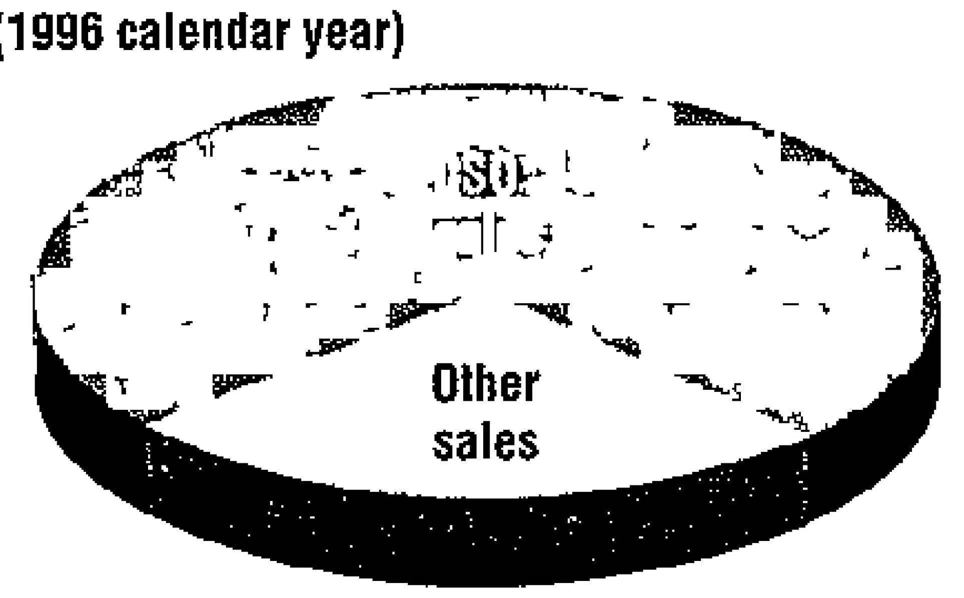
The nucleus of DFR's management joined Boulle at AMF, which includes new members with "extensive operating experience in Africa and South America, where the company is currently most active "

Boulle says AMF's strategy is to "go for large, high grade, low-cost producers We like the idea of operating with small units, which are more nimble and agile That's why we create these smaller companies for our larger group We have a business and are damned good at exploration "

He does, however, modestly concede that De Beers "is so big that nobody is going to overtake them tomorrow "

WORLD ROUGH DIAMOND SALES

(1996 calendar year)



• Central Selling Organisation

Boulle says he wants to sell his diamonds independently of the Central Selling Organisation (CSO) through which De Beers controls the sale of more than 64% of the world's output

"We now sell our diamonds on the open market in Antwerp and are prepared to sell to the highest bidder We'll sell to De Beers if it's the highest bidder " He says he has not entered any agreements with Russian or Australian producers

Boulle has investments in various mining sectors He owns 27,5% of Nord Resources (listed on the NYSE), which in a 50-50 partnership with Lord Hanson's Renisson (owner of Australia's Consolidated Rutile), claims to have the world's highest-grade, lowest-cost rutile mine in Sierra Leone

Nord in turn owns 35% of Nord Pacific, which has gold deposits in Canada and has discovered high-grade gold and copper deposits in Western Australia and Papua New Guinea

AMF is a shareholder of Canada-listed Indomin, which has a number of diamond projects on- and offshore in Kalimantan, Indonesia, one of which is in partnership with Rembrandt subsidiary Trans Hex

Through his Diamond Fields International, Boulle has a number of properties in Namibia, notably the rich offshore Luderitz concession, and SA (Cape Canyon) DFI subsidiaries include South Atlantic Diamonds, based in Cape Town, and Namibian West Coast Diamonds

Having astutely positioned himself in Congo while it was still in the grip of war, Boulle is exploring areas in Sierra Leone "that have the potential to host kimberlites and alluvials for high-quality diamonds "

AMF's African interests extend to Angola, where it has exploration and mining properties in the Cuango Basin "In recent years, the basin has produced $600m/year of diamonds despite the civil war," says Max

AMF has also acquired the right to form a 50-50 joint venture with Idas Resources NV to explore and develop all the concession areas held by Idas in Angola Amarnath Singh

UMBONO INVESTMENT CORP

Time to tackle the problems

Restructuring to be discussed this week

When it listed on the JSE in December 1995, Umbono Investment Corp became the only company listed under the Redevelopment sector It was to blaze a trail in the new investment environment as a private equity fund making investments in mostly unlisted, small- to medium-sized companies and "promote the economic enfranchisement of black South Africans "

It was capitalised at R52m, mostly from the US The Calvert New Africa Fund (managed by Calvert, an American company well known for its social responsibility funds) holds 89% of the shares while RCB Trust (also managed by Calvert) holds 5%

So far Umbono has failed in its mission Since its listing 18 months ago, the share has risen only once from its listing price of R10 to R11 on a trade of 3 700 shares On Monday, 100 shares traded

What is most surprising is that it has taken the board until this week to act

Umbono's poor performance is not in the same league as other black empowerment ventures which have run into difficulties such as New Age Beverages and National Sorghum Breweries However, all three cases underline the necessity for competent

ODM set to boost mining production

ARG 4/7/97 (216)

LLEWELLYN JONES
BUSINESS REPORTER

Cape-based Ocean Diamond Mining, which scours Namibian coastal waters for high-quality gems, is in a strong financial position to expand operations.

In Ocean Diamond Mining's (ODM) annual report released this week, managing director Andre Louw said the company's R40-million cash resources were earmarked to expand production capacity through the acquisition of further mining vessels and the introduction of more efficient dredging methods

ODM currently operates three mining vessels – the Oceandia and Halifax, which are used for sampling and delineating ore reserves, and the Namibian Gem, which conducts the bulk of the diamond mining

"However, we consider it only prudent to exercise caution in this matter of large capital expenditure, which is why we continue to study with the utmost care the new mining methods proposed and the nature of the next vessel, as well as the timing of the commissioning," Mr Louw said

Meanwhile, Mr Louw said ODM had also been approached to participate in several interesting diamond mining projects, and the company had itself initiated certain investigations to expand geographically, particularly in Angola

"It is clearly of interest to ODM to take advantage of opportunities to expand its business parallel to our core operations which have been growing so successfully," he said

"In light of this, we expect that our existing operations for the year ahead will continue much along the levels of the past year, but that some important and exciting new developments, if determined to be viable, will be added to the group's portfolio of operations "

He said the emphasis for the year ahead would remain on the actual mining of delineated reserves by the Namibian Gem, while simultaneously continuing the careful delineation of additional mineable ore reserves for future extraction

Mr Louw said ODM had thus far had little time to investigate new concession areas granted to them by the Namibian Government in June last year

"We remain optimistic that substantial mineable ore reserves will be delineated and proven in these concession (areas) due to our systematic exploration approach "

David McKay

216

Trans Hex to develop concessions

BD 10/7/97

DIAMOND exploration company Trans Hex International had agreed to develop three concession areas in Angola with Australian company Longreach Gold Oil, the SA company said yesterday

The three areas — Somicoa, Kupolu and Diagema — were in Angola's Lunda Norte province Longreach owned half the diamond mining rights with the balance owned by Angolan parties, it said

According to an independent consultants' report, the indicated alluvial resource of the three concessions totals about 400 000 carats

It has the potential to be put into production in a relatively short time The product would be of gem quality, averaging $200 a carat, the consultants said

Trans Hex will fund the exploration, feasibility studies and development of the concessions, earning a 75% interest in Longreach's 50% ownership subject to completion of a due diligence Trans Hex would therefore have a 37,5% interest The amount to be spent on the exploration would not exceed $4m and further funding, if necessary, would be done by the partners relative to shareholdings, Trans Hex said

EXECUTIVE SUITE

By William Wells and Jack Lindstrom

SA BUSINESS DIGEST

CT(BR) 17/7/97

De Beers signs new diamond mining agreement with Guinean government

De Beers Centenary, the offshore diamond arm of South Africa's [illegible] mines, said yesterday it had signed a new diamond mining agreement with the government of Guinea in [illegible] that the agreement allowed it to manage any mine developed as a result of its exploration in Guinea.

(216)

[illegible] diamonds produced at any [illegible] the Central Selling Organisation (CSO), De Beers' diamond purchasing and marketing arm, the company said. De Beers has been prospecting for kimberlites — [illegible] generally considered likely to contain diamonds — in Guinea since 1995, and the CSO operates two buying [illegible] Conakry. These buying offices purchase [illegible] at mines around Guinea. — Dow Jones, Johannesburg

Sowetan 17/7/97 (216)

De Beers signs diamond mining deal with Guinea

DE Beers and the government of Guinea have signed a mining agreement which sets out terms under which both parties will cooperate in De Beers' prospective activities in that country

The agreement was signed in Conakry yesterday by minister of economy and finance Ibrahim Kassory Fofana and the minister of natural resources and energy Fassine Fofana

It also sets out the terms under which De Beers may operate any mines discovered as a result of its prospecting and the marketing of any ensuing diamond production

Under the terms of a reconnaissance agreement, De Beers has been involved in prospecting for kimberlites in eastern Guinea since 1995 De Beers Central Selling Organisation has also been operating two buying offices for the purchase of rough diamonds in Guinea since 1992, in both Conakry and Kankan

The mining concession is the first of its kind granted under the new mining code It includes Guinea's fiscal objectives, and the financial and economic interests of the state and De Beers so as to permit the parties to attain their respective strategic goals

- To position Guinea as a desirable country for mining investment, and
- To consolidate and enhance the role of De Beers in the mining world, and in Africa in particular

Australia's Moonstone tests alluvial diamonds in SA

CT (BR) 18/7/97 (216)

ANDI SPICER

Johannesburg — Australian producer Moonstone Diamonds is to buy into a new R22 million alluvial diamond project in South Africa that started operations earlier this year, the company said yesterday

Moonstone took a three-month option to buy into the scheme from Northern Cape Mining and Exploration The operations are at Saxendrift on the south bank of the Orange River, 50km west of Douglas in the Northern Cape province.

The mine produces 400 000 tons a month of material and the expected life is about 10 years, Moonstone said yesterday.

"The Douglas area is well known for the exceptional quality and size of its alluvial diamonds, and has been the site of alluvial prospecting and mining since the beginning of the century"

The mine is targeting large, high-quality diamonds, and exploration will be extended to adjacent properties in the future.

Northern Cape Mining and Exploration has applied for prospecting permits on four other properties in the same area This would extend the life of the mine by another five to 10 years if commercial diamond deposits were found, it said

Since the mine began in January, more than 1 459 carats have been recovered until the end of May Grades are estimated at 0,5 to 1 carat per 100 tons, "similar to most other alluvial diamond deposits being mined along the Orange and Vaal rivers"

In the option period, Moonstone will do a thorough investigation of the operation, with scrutiny of prospecting, mining, processing costs and data, diamond sales and other information.

Moonstone will also receive a 15 percent royalty on all diamonds recovered during the option period and has the right to buy all of the assets when due diligence ends.

DIAMONDS

(216) ei (BM) 23/7/97

De Beers develops sorting facility for Angola

De Beers Consolidated Mines said yesterday it had signed an agree[illegible] storey building in central Luanda to house a purpose-built and secure diamond sorting facility for Angolan diamonds.

[illegible] building will be constructed [illegible] national diamond company Endiama, which will own three floors of the new building. The building, similar to sorting centres which De Beers has constructed in Botswana, Namibia and South Africa, will cost approximately $30 million to develop and equip.

George Burne, company director responsible for Angola, said the deal underlined De Beers' commitment to investing in Angola. The country produces an estimated two million carats of diamonds each year. Endiama and the South African company have previously signed agreements covering prospecting in three different areas of Angola, the marketing of gems from the principal Cuango basin producing area and the operation of diamond buying offices. — *Reuter, Johannesburg*

De Beers to build sorting house

BD 23/7/97 (216)

Lukanyo Mnyanda

DIAMOND mining and marketing organisation De Beers would develop a $30m building in Luanda to house its sorting facilities for Angolan diamond production after reaching an agreement with that country's national diamond company, Endiama

De Beers said yesterday the 12-storey building would be built on land owned by Endiama, situated next to the Angolan producer's existing offices in Luanda's central business district Endiama would own three floors of the building — which would house a purpose-built and secure diamond sorting facility

De Beers said the building would cost $30m to develop and equip and was expected to create "hundreds" of jobs during the construction phase, which would use local contractors

The De Beers director responsible for Angola, George Burne, said the building underlined the company's commitment to investment in Angola

"We also look forward to the commencement of training for Angolans in the essential diamond skills necessary to man the building. We believe that this further underlines De Beers' commitment to investing in Angola."

A De Beers spokesman said the investment would represent the company's third sorting facility outside SA, after similar developments in Namibia and Botswana.

Endiama chairman José Dias said the company needed its own facilities in order to fulfil its legal obligations to sort and value Angola's diamond production "The construction of this building, allied to the training of personnel, is a decisive step towards the achievement of this objective "

De Beers said the building would incorporate the latest technology required for efficient and secure handling of rough diamonds, and would contain training facilities for sorting and valuing

The two companies have previously signed agreements covering prospecting for new diamond deposits in three regions and the marketing of diamonds from the Cuango river drainage

They also operated diamond buying offices for diamonds available outside the formal production circuit

De Beers loses its monopoly in diamond industry in Congo

ARG 24/7/97

Kinshasa – The new Republic of Congo government has sold its first batch of diamonds to a buyer other than De Beers, ending an exclusive arrangement that the conglomerate had maintained with former dictator Mobutu Sese Seko's regime.

Susskind Diamonds, based in Antwerp, Belgium, bought 538 335,5 carats at tender earlier this week. It was the fourth sale since the new government took power in May, but the first in which De Beers did not make the purchase.

Under Mr Mobutu, De Beers had an exclusive buying contract with the state-run diamond producer, MIBA, which produces about one-third of Congo's total annual diamond output of roughly 20 million carats.

President Laurent Kabila's government decided to end De Beers' buying monopoly and switch to an auction system for MIBA's production.

Over the past few years, as copper production has slipped, diamonds have become Congo's most important source of foreign exchange.

Production at MIBA, which is 80% owned by the state, has been sliding since 1991 because of a lack of spare parts, fuel shortages and a fall in the grade of its deposits

MIBA's output reached a peak of 13 million carats in 1986, of which De Beers bought 95%.

(265) (016)

Well over half of Congo's diamonds are sold by the private sector, with a large proportion smuggled out of the country. Production at MIBA is currently estimated at about 6,5 million carats.

Congo's Minister of Mines, Kambala Kabila Mututulo, said production at MIBA had fallen below break-even, which he pegged at 7,5 million carats. – Sapa-AP

De Beers to step up its prospecting in Angola

(2H) BD 24/9/97

Barnaby Phillips

LUANDA — Diamond mining company De Beers is stepping up efforts to find diamond-bearing kimberlite pipes in northeastern Angola

A De Beers official said the company had surveyed a 4 000km² area in the provinces of Lunda Norte and Lunda Sul last year, but hoped to look at a larger area this year "We are not ready to start drilling yet, but are locating possible targets from our aerial surveys," he said.

The Angolan government awarded De Beers the rights last year to prospect an area of about 20 000km² in the northeast Recent fighting in the area between the Angolan army and rebel movement Unita troops has not yet forced De Beers to slow prospecting, although it is understood to be watching the situation carefully

De Beers also has the rights to look for kimberlites in two other parts of Angola Quela in the northern province of Malanje, and Mavinga in the southeastern province of Cuando Cubango. However, both concessions are in areas still under Unita control, making it impossible for De Beers to start geophysical surveying

Unita still controls Angola's richest diamond areas, and is believed to be illegally exporting about $500m diamonds a year.

De Beers' long-term commitment to Angola was underlined by this week's announcement that it would build a $30m sorting house in Luanda on land owned by diamond parastatal, Endiama Links between the two will also be strengthened

While the sorting house will not prevent illegal exportation of diamonds, it is hoped it will bring a measure of discipline to the legal sector

A Luanda mining analyst said the project signalled De Beers' determination not to be elbowed out of the Angolan industry "Angola has the third most valuable diamond mining resources in the world, but at the moment De Beers has no rights to mine, and it is worried that rival companies will not even sell through it "

De Beers' Central Selling Organisation director Ollie Oliveira said: "We will be able to offer training for Endiama's staff, which will improve their capacity to sort Angola's diamonds "

FM 1/8/97

(216)

OCEAN DIAMOND MINING

Production potential rising

Now the company needs to meet investor expectations

Marine diamond stocks are traditionally high-risk, high-reward plays ODM's latest review indicates good prospects, but the share may now be overpriced

At 710c, the p e is 21,5, high compared with that of industry leader De Beers (12,2) and Trans-Hex (12) ODM has yet to pay a dividend, yet De Beers and Trans-Hex offer yields of 2,8% and 2,3% respectively

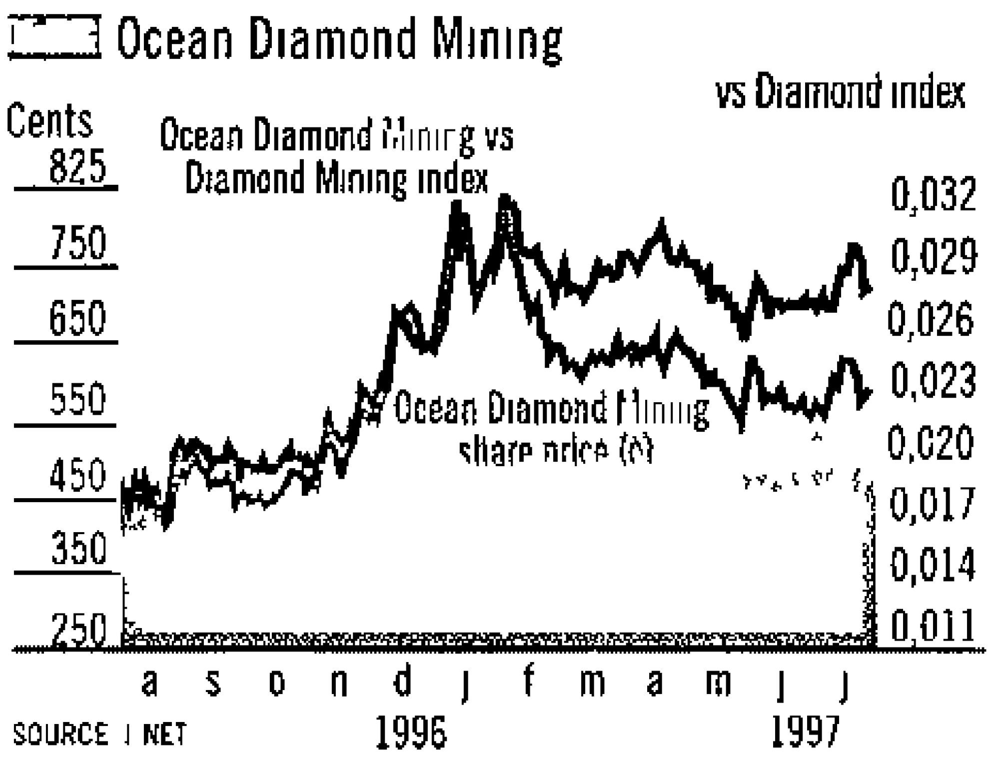
Trans-Hex is a better comparison for ODM De Beers gets the bulk of its production from mining host kimberlite pipes and it also has extensive nondiamond interests

Trans-Hex is looking at rapid growth over the next five years Most of its output is high-quality gems from alluvial and marine operations in SA Its international arm is targeting marine diamond ventures in areas such as Indonesia, but it's also looking to lift production from its SA marine leases

ODM's share price surged last year after the announcement in June that the Namibian government had granted the group 5 700 km² of additional marine prospecting rights It amounted to a 15-fold increase in ODM's Namibian prospecting and mining rights in key areas around Luderitz

Management considers these areas of prime geological importance Exploration expenditure rose 39% on a year earlier, to R7,6m

Most importantly, sampling work so far has delineated a total ore reserve, which can be mined profitably at current costs, of around 220 000 carats That equates to at least three years' production at current levels of output A further 276 000 carats of marginal ore reserves have been outlined



Cash on hand totals R40m and MD Andre Louw reiterates his intention to expand production through the acquisition of another vessel to join the two now in service Also being considered is an alluvial diamond venture in Angola, an announcement is due soon

"ODM management is doing all the right things and prospects seem excellent, but I think the share price has run ahead of its potential," says SMK Securities analyst Hilton Ashton He believes the share is worth about 670c on a two- to three-year view

Brendan Ryan

ACTIVITIES *Recovers diamonds from sea bed off West Coast of Namibia and South Africa*

CONTROL *Standard Bank Nominees and First National Nominees 32%*

CHAIRMAN *I R M Prinsep MD A C Louw*

CAPITAL STRUCTURE *36,5m ords Market capitalisation R259m*

SHARE MARKET *Price 710c Yields 4,6% on earnings, p e ratio, 21,5 12-month high, 820c, low, 390c Trading volume last quarter, 2,2m shares*

Year to March 31	'94	'95	'96	'97
Carats mined	11 626	14 289	52 310	57 021
Turnover (Rm)	10,6	11,3	38,1	43,9
Operating profit (Rm)	3,2	(1,9)	4,1	7,8
Attrib profit (Rm)	2,6	0,1	5,8	12,1
Earnings (c)	11,6	0 4	16,0	33,0

De Beers wary of diamond sales agreement with the Russians

(216)

All has not gone flawlessly between De Beers and Russia on the diamond front, writes **Neil Behrmann** in London

BD 4/8/97

DE BEERS is wary of a complex sales agreement proposed by Russia, partly because it wants to negotiate a better deal and partly because the nation has failed to deliver diamonds that were bought earlier in the year

The diamonds which were bought and paid for are worth about $165m, according to a De Beers official Besides De Beers, at least two Antwerp dealers have experienced similar problems, although the amounts are much smaller

The delivery problems are blamed on Russian bureaucracy and delays in issuing export certificates, but since the money had been deposited upfront, De Beers executives are irritated Global diamond dealers and manufacturers, who have so far this year received minimal quantities of Russian stones, are thus experiencing the same frustration as platinum dealers

Despite this annoyance, De Beers negotiators are closely studying an eight page decree of President Boris Yeltsin authorising the producer Almazy Rossi Sakha (ARS) and government to sign a trade accord with the cartel

Although De Beers officials refuse to comment on the draft, they are not denying the contents of a report in the newsletter Diamond Intelligence Briefs According to the newsletter, the Russians are prepared to sell De Beers $550m worth of diamonds from production, about half the annual total that was exported to the company in terms of a five-year accord that expired early last year Moscow diamond polishing firms will have first option on the diamonds, so in practice De Beers will also be able to buy gems that the local industry rejects.

The decree also said that Moscow wanted to be involved in assessing how De Beers prices its goods on world markets Russia intends liberalising imports and exports of diamonds Import duties and taxes will be abolished, allowing Moscow diamond cutters the opportunity to purchase rough diamonds abroad

ARS and Almazjuvelirexport, the precious metals marketing organisation, will be in charge of selling the diamonds and the Gochran, the Russian treasury that controls the nation's diamond inventories, will be able to replenish its stockpile if necessary

De Beers first intends discussing the proposed deal with the ARS before new negotiations begin.

Russia, the world's biggest producer in terms of value and formerly a leading producer member of the De Beers cartel, has delayed a formal sales arrangement despite a preliminary agreement in February last year. The country did not sign on the dotted line and at the end of last year, De Beers said it would join other dealers and only buy diamonds it could readily sell on the market.

Diamonds bought under this system have not been delivered.

Govt department looks at Alexkor revamp plan

BD 12/8/97 (216)

Reneé Grawitzky

THE public enterprise ministry is considering an Alexkor restructuring committee proposal which recommends that 30% of the state-owned diamond mine be given to the community, 20% sold to workers, 15% for the empowerment fund and 35% sold to a strategic equity partner.

At the same time an Alexkor board meeting resolved to approach De Beers to assist in security arrangements at the mine in the wake of continued theft, resulting in the loss of millions Formal talks between Alexkor and De Beers are expected to start soon.

Besides security problems, the mine's future was jeopardised by a lack of about R93m for more exploration to expand reserves. A source close to the process said if additional funds were not made available soon "we could foresee big problems for the mine".

He said Public Enterprises Minister Stella Sigcau was supposed to approach the Industrial Development Corporation for assistance while consideration was being given to getting private investment with discussions underway with Rand Merchant Bank.

The model for Alexkor's restructuring was motivated by the fact that the mining industry played a crucial role in the Namaqualand economy.

The model was to ensure that the mine and its other activities could act as an instrument and vehicle for future sustainable regional development.

By comparison, the privatisation of Companhia Vale do Rio Doce, Brazil's largest state-owned mining company, also took into account the effect on the broader community and ensured affected communities were provided for.

A representative of Brazil's national development bank, Armando Castelar Pinheiro, said recently that 8% of the company's profits were channelled into a fund used for various projects in the states in which the mine operated.

When the state sold off 43% of the company, 8% was given to affected communities for directed projects. In addition, half the revenue from the sale was placed in another fund managed by the bank to be used for private investment in infrastructure projects.

Pinheiro said the two funds were established as a way to deal with the political backlash of privatising the firm.

Brazilian workers, he said, benefited from privatisation by being offered seats on the board of directors even if they did not take share options or they were given the option of buying up to 10% of the shares sold

In the case of Companhia Vale do Rio Doce, labour bought 5% at a subsidised price. He cautioned that the sale of the firm, through public auction, was complex and it took many years to develop the right formula. The public auction route was to ensure transparency which led to increasing support for privatisation by society

CASH BLUES *Julian Oglvie Thompson and Nicky Oppenheimer blame the dollar for De Beers' poor showing*

PHOTO JOHN WOODROOF

De Beers fails to meet expectations

CT(DR) 13/8/97 (216)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — De Beers, the diamond group, yesterday posted disappointing results in the half-year to June 30, with attributable earnings up 5 percent in dollar terms

The market had forecast an increase of up to 30 percent

Earnings a linked share, excluding exceptional items, fell from \$1,27 to \$1,14 If exceptional items are included, earnings rose to \$1,33 from \$1,27 The dividend was maintained at \$0,274 a linked share, but was 6 percent better in rand terms at 124c from 116,9c

The strength of the dollar and the faltering growth in demand for diamonds in Asia knocked profits, but sales in the US were encouraging, Julian Ogilvie Thompson, De Beers' chairman, said yesterday

Attributable earnings rose to \$507 million in the first half of this year from \$482 million last year, but increased 19 percent in rand terms to R2,3 billion from R1,92 billion

The results, however, were buoyed by the sale of the company's shares in JCI for \$75 million If this was excluded, earnings were down 10 percent on last year in dollar terms and only up 2 percent in rand terms

☐ Business Watch, Page 18

Ogilvie Thompson is to leave top position

Johannesburg — Julian Ogilvie Thompson, De Beers' chairman, is to step down at the end of the year and hand the top position at the world's largest diamond company to Nicky Oppenheimer, the present deputy chairman

Ogilvie Thompson will stay on at De Beers as deputy chairman and will keep his seat as chairman of Anglo American.

Oppenheimer will be the third generation of Oppenheimers to lead De Beers, following his grandfather Ernest and father Harry Oppenheimer. — Andi Spicer

Oppenheimer is to take De Beers helm

BD 13/8/97 (216)

David McKay

DE BEERS reported a 19% increase in attributable earnings to R2,3bn in the six months to June following strong diamond sales, and announced that longstanding chairman Julian Ogilvie Thompson was to step down to make way for deputy Nicky Oppenheimer

Ogilvie Thompson said yesterday he would step down as chairman, completing 13 years at the helm, and allowing Oppenheimer to continue his family's reign over the company

However, Ogilvie Thompson would continue to lead the greater Anglo American/De Beers/Minorco group

De Beers reported mixed results, in which high diamond sales were offset by weakness in retail markets, particularly in Japan. Sales from the US market would partly control the performance of the group in the second half, Ogilvie Thompson said

The group conceded that there had been a drop in demand for its diamonds, but aggressive marketing had led to encouraging growth in the Chinese and Korean markets

Another influential factor in the second half was the amount of diamonds sold out of Angola Ogilvie Thompson said De Beers' outlook for year-end results was "cautious".

Investors reacted negatively to the news and the share shed 800c on the Johannesburg Stock Exchange to close at R163 yesterday.

In the period under review, a higher than normal tax bill was offset by a R341m exceptional item related to income from the sale of De Beers' interest in JCI. The exceptional item was offset by a provision on the sale of De Beers' interest in Lonrho

The combined equity accounted earnings rose 29% to R3,5bn Dividends rose 6% to 124c a linked unit The combined diamond account was 30% up at R2,3bn. De Beers' diamond account rose 51% to R1bn and Centenary's dollar-denominated diamond account rose $4m to $275m. Investment income rose to R744m (R662m).

Diamonds find an Oppenheimer is forever

De Beers' new chairman Nicholas Oppenheimer stresses continuity and family, but acknowledges the challenge comes from large new producers, writes **Hilary Joffe**

BD 14/8/97 (216)

HE IS probably better known for the Nicholas Oppenheimer XI, the by-invitation-only private cricket team which plays the opening matches against touring international sides, than he is in his role as business person. And Oppenheimer, 52, who is to take over as chairman of De Beers from Julian Ogilvie Thompson, widely known as "Jot", at the end of this year, is the first to quip that he qualified for the job by choosing his parents carefully

Naturally, this is not his only qualification Despite the slightly dilettante image, he is said to have a sharp intellect. He says he started learning about the diamond business "even before I could think" He has 30 years of experience in the Anglo American and De Beers groups, for the past dozen years or so as deputy chairman of both and chairman of the London operations of the Central Selling Organisation (CSO), the marketing channel for the bulk of the world's gem diamonds

But diamonds are a strange business and one of the strangest things about De Beers is that the fact the new chairman is an Oppenheimer still makes a difference It is a paradox of which he is aware De Beers is the world's largest diamond company, valued by the market at R58bn, with a wide spread of shareholders

Yet, Oppenheimer notes there is in the business "an indefinable feeling of family" Customers are themselves families and individuals And it is a product which lends itself to "old fashioned" business practices — although he stresses De Beers is "new-fashioned" in its ability to move quickly

Ironically, although the Oppenheimer family holds 8% of Anglo American, it owns no shares in De Beers itself Its holdings are in the unlisted diamond trading companies which make up "the syndicate", the CSO predecessor Oppenheimer is bemused at the widespread notion that his father, Harry, still pulls the strings in the broader Anglo group

But whatever the percentages might say in diamonds the family remains important This is part of the De Beers aura at this week's media conference Oppenheimer stressed the continuity of leadership of the group, which has had only three chairmen since 1929, when grandfather Sir Ernest took the helm, creating the CSO in its present form in the early 1930s in response to the turbulence in the industry at the time

The continuity "has resulted in a care for the company and the industry it serves which transcends personal ambition and temporary interests and fashions"

While Oppenheimer stresses continuity and family, he also emphasises De Beers' ability to adapt to new challenges He identifies the biggest change in the market as the increasing number of diamond producers Where once De Beers was the sole major producer, the range is now wider, with Canada on its way to becoming the newest of the majors when the BHP Diamet Lac de Gras mine comes on stream at the end of next year, to be followed early next century by the Aber-Kennecot mine

For De Beers to continue its dominance, it has to remain a major producer in its own right — and it must adapt so that it can sell the concept of marketing via a single channel to all major producers, says Oppenheimer "We have got to be able to demonstrate that it is in their interests to join"

De Beers and its partners in Botswana and Namibia produce about half the world's rough diamonds by value — and the expansion of Botswana's Orapa mine announced last year, which will double its annual capacity to about 12 million carats, is larger than Lac de Gras' expected annual output of 4-million carats or so

In addition are its marine operations off the coast of Namibia and SA, as well as potential expansions in SA mines such as Venetia and Finsch. Oppenheimer believes the group's share of world production makes it strong enough to maintain its position

Nonetheless, analysts note there is a sizeable chunk of world production currently outside the formal ambit of the CSO — given there is as yet no new contract with the Russians, a substantial quantity of high quality diamonds coming out of Angola since the early 1990s, and the departure from the CSO last year of Australia's Argyle, which previously accounted for about 6% of CSO sales and dominates production of low-value "Indian stones"

Despite gloomy predictions of the CSO's demise over the past two to three years, it has displayed an ability to survive — riding out billions of dollars of sales from the Russian stockpile, and cutting prices on "Indian" goods this year to increase its share of that market

But the question of large new producers must loom in longer term — and while the group is prospecting in Canada and has three exploration licences in Angola, the group has so far not succeeded in finding much

Oppenheimer says the group must do two things to maintain not only its dominance but its role as "trendsetter" it has to ensure it keeps skilled buyers in places such as Angola and Congo/Zaire — and is lucky it has the ability to do so, and it must negotiate with new producers such as the Canadians (and new Russian mines) The CSO's Gary Ralfe confirmed this week the group was in negotiations with BHP Diamet

In the late 1990s it is not only the importance of family which seems anachronistic — nor the fact that De Beers remains a single product company, keeping its broad portfolio of nondiamond investments to back it up in bad times — and give it the financial strength to raise the loans to support the industry by holding stocks when demand is weak But in an important sense the whole concept of the CSO is an anachronism — if a hugely successful one

Oppenheimer is not unaware of the paradox, although he advances the standard arguments in favour "It is an irony that we believe in free trade and deregulation yet we are proponents of a regulated market, via a single channel But diamonds are a most unusual product, with no practical use — and throughout the diamond chain those involved say they want to have the value of their stones maintained."

Although he sees change, he is unwilling to speculate on how the group might look in a decade Some have suggested the CSO could make itself more attractive by becoming a producers' co-operative, but he argues co-ops such as the Tin Council or the Organisation of Petroleum exporting Countries have not been effective and single channel marketing works because it is run by one company

He is clear, though, on one issue although "excellence" must be maintained, the group must advance black managers "In my lifetime De Beers has got to reflect the demographics of SA."

Oppenheimer has kept a fairly low profile and analysts wait to see how he will shape up — especially since he is expected to be Anglo's next chairman (Oppenheimer says JOT will remain at the helm into the next century and will not speculate beyond that)

But, says one, he should do no worse than the rather remote JOT, who is to stay on as deputy chairman — and he may do better His name is one factor In the old days the Soviets were believed to insist on dealing with family members Whether or not that is still the case, it has been Oppenheimer, in his role as head of the CSO in London, who has led negotiations with the Russians the past three years — though political reshuffles have prevented an agreement being signed.

Standard Equities analyst James Picton argues that the main problems the group faces are in marketing — the domain of the CSO in London — so it may be no coincidence that Oppenheimer is taking the helm now

He will need any advantages he can draw on The De Beers share price dropped sharply following the release of interim results which were worse than many analysts' had expected Even those who had their numbers right were jolted by comments on the outlook for the second half made by Ralfe and JOT, comments described by one analyst as De Beers' version of a profit warning

Oppenheimer stresses first-half sales were extremely good, though margins were squeezed Second half retail (rather than CSO) sales are expected to be about the same in local currency terms though they may be 1%-2% down in dollar terms

The US market continues to be strong In Asia, markets such as Thailand have been hit by currency problems the key Japanese market, dampened by the economic downturn, is looking slightly better Overall, though, the market is solid, Oppenheimer says

Nicky Oppenheimer has been appointed to the De Beers' chairmanship

Sunday Times Business Times
August 17 1997

Strong dollar takes the sparkle out of De Beers

(216) ST(BT) 17/8/1997

DE BEERS shed R20 to R151 50 after signalling what one commentator described as a profit-warning about prospects for the six months to December, writes **JULIE WALKER.**

The Central Selling Organisation's record first-half sales of $2 880-million seem unlikely to be repeated in the second half because of the mixed outlook in the retail market India and America are very strong, Europe stable but South East Asia and Japan are showing strain, "adversely affected by the strength of the dollar", according to De Beers

Director Gary Ralfe says clients are fairly anxious about how the American Christmas season moves from here on, and the uncertainty has affected applications for diamond sights, but the CSO performed its role, adjusting its supply to suit the demand

Chairman Julian Ogilvie Thompson would not go so far as to call the prospects gloomy current expectation is that sales will be maintained at 1996 levels in local-currency terms — themselves a record — but will be down in dollars.

"I'd say the outlook is cautious, but not gloomy," Ogilvie Thompson said

In the six months to June 1997, attributable earnings of R2 3-billion or 605c a share were 19% up in rand terms and 5% in dollars An exceptional profit of R431-million was netted from the surplus arising on De Beers' disposal of a portion of its stake in JCI, less a provision in respect of the anticipated loss on disposal of its interest in Lonrho to JCI.

The dividend from the combined Centenary and Consolidated companies was held in dollars and 6% up in rands to R1.24 a linked unit — perhaps a little more if the rand weakens before the dividend fixing date of September 15

De Beers' mining operations finally exhausted their tax losses and the tax payable jumped by 49% to $156-million Interest income almost matched expenditure for the first time

The balance sheet shows a reduction in diamond stocks of $561-million to $4 142-million because De Beers did not buy as many Russian and Australian stones under contract as last year In the six months to June, De Beers bought only $150-million worth of Russian production on a non-contractual basis — all that was available according to Ralfe — of which about half have reached London after delays

Further discussions are required before finality is achieved on a new Russian contract Much depends of what Angola produces during the drier season, and De Beers is already back in Zaire

At June 30, De Beers' net asset value was $43 03 The current share price portrays a substantial discount to net asset value, a fact which prompted a simple question from the London audience at this week's presentation was it a failing of management or of investors that De Beers' shares traded at a discount? Ogilvie Thompson did not miss his last opportunity before exchanging reins with deputy Nicky Oppenheimer at the year-end "The latter "

Marine diamonds attract investors

BD 20/8/97 (216)

The growth in the number and relative share values of junior marine diamond companies operating off the SA and Namibian coastlines has been rapid over the past 10 years, writes mining reporter David McKay

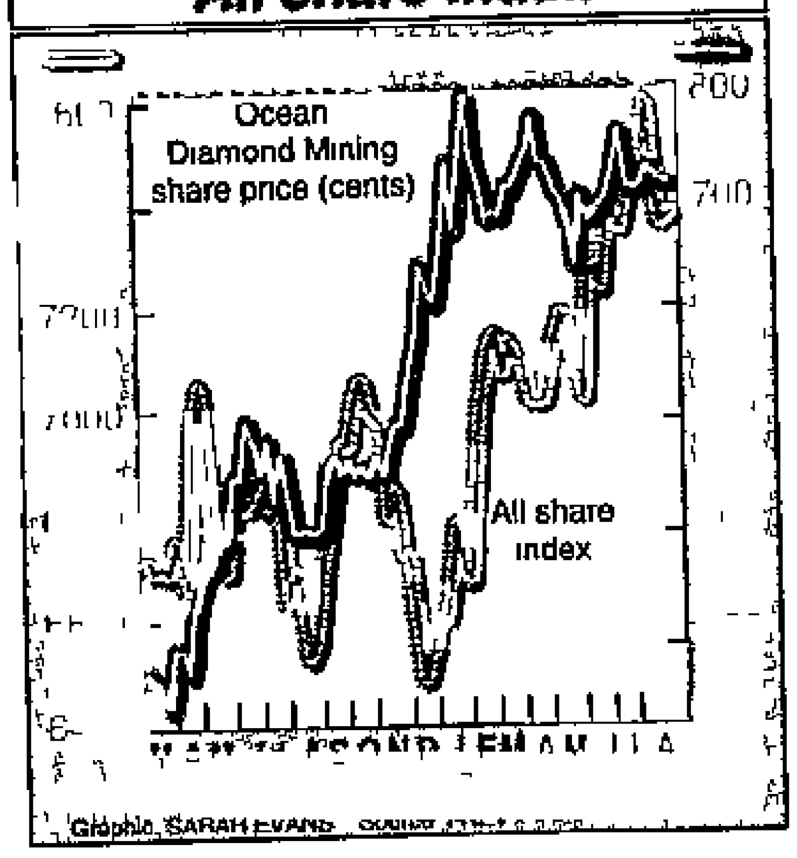
THE marine arm of diamond group De Beers has traditionally maintained a tight grip on the industry, but there has been room for a group of smaller listed companies to operate, some of which are now winning the attention of institutional as well as private investors.

Société Générale Frankel Pollak diamond analyst Ross Gardiner said in a recent report surveying the SA and Namibian diamond marine industry, that, on an annualised basis, Benguela Concessions' (Benco's) share price had grown 67% between 1992 and the first quarter this year.

Ocean Diamond Mining (ODM) gained 26% over the same period, while Trans Hex gained 10%. Recently, SA-listed junior marine diamond stocks have outperformed the Johannesburg Stock Exchange's all share index.

Some of the interest has been inspired by the performance of Canadian juniors after the Point Lake discovery near Lac de Gras in Canada's North Western Territories. This enthusiasm has spilled over to the southern African interests listed in North America, such as Namibian Minerals Corporation (Namco). But local junior diamond mining shares not listed overseas have tended to lag behind, Gardiner says.

Ocean Diamond Mining vs All share index



Graphic: SARAH EVANS

African Mining magazine estimates diamonds totalling 3-billion carats are deposited along the west coast of SA and Namibia. At an average value of $288 a carat, which some analysts believe is a high estimate, this is worth $860bn in today's money. In terms of value, this compares to 50 times SA's gold production of 522 tons in 1995.

Marine diamonds are generally better quality and therefore more valuable than landed gems, which average about $120 a carat. They are also submerged in up to 160m of water and need a good deal of exploration and experience to find.

This could underpin investors scepticism of the marine diamond sector as many companies, in investors' view, lack the experience to turn promises into reality. But there are enough examples to prove that marine diamond companies can be a safe bet.

ODM is a case in point. As the first small producer to commission a boat for SA and Namibian offshore exploration, its bold move has paid off handsomely, Gardiner says. Stable production of between 13 000 and 15 000 carats a quarter in 1996/97 had enabled it to build a strong balance sheet with about R40m in available cash.

Benco recovered its first diamonds off the SA coast on Christmas Day last year, a development which instantly transformed it from a diamond exploration company into a diamond production company.

However, a number of events need to take place before the marine diamond industry receives a better press.

Namco must enter production phase — analysts have been a little sceptical about it, and will continue to be so until it makes good on its promises — while the impending privatisation of state-owned Alexcor also hangs over the industry.

After years of operating profitably, unlisted parastatal Alexcor has recently dipped into the red, while mineable reserves give the operation a life of less than half a year. Gardiner says Alexcor is in dire need of a capital injection. It has potentially rich marine concessions but their mode of operation make it expensive.

The marine diamond companies expect to increase production in the coming years. The largest producer in the 1996/97 financial year was De Beers Marine. It produced 470 892 carats, which could be increased to 600 000 carats by 1999.

ODM is smaller than De Beers, producing 57 950 carats, and should produce at least 120 000 carats in 1999.

Benco mined 10 000 carats during that period, which it could increase to 112 000 attributable carats by 1999.

Trans Hex, one of the other main players in the southern African diamond industry, though more from alluvial than marine deposits, produced 27 000 carats in the 1996/97 financial year. Industry sources say it will keep its marine diamond production relatively static and produce 30 000 carats from diver operations in 1999.

Namco, currently a nonproducing company, says it will produce 100 000 carats by 1999.

M+G 22-28/8/97 (216)

Angolan conflict threatens De Beers profit

Chris Gordon

Renewed conflict in Angola will knock De Beers's second-half profits, according to chair Julian Ogilvy Thompson The possibility of falling profits if Unita stops production and difficult relations with the Angolan government mean losses for the diamond giant

Last week, the group announced a 19% increase in attributable earnings to R2,3-billion in the first half. Ogilvy Thompson's statement means profits have been boosted so far this year and all last year by the purchase of gems largely smuggled out of Angola. No other industry could publicly admit that its profits come from smuggled goods but diamond smuggling is not an international crime

De Beers points out that the existence of an open market for diamonds, whatever their origin, prevents the trade from being pushed underground and maintains the price. Nonetheless, this trade has funded three wars in Africa, in Sierra Leone, Angola and Liberia

Last year, De Beers bought diamonds valued at $800-million from Angola, mainly high-quality gems Angola produces the world's second most valuable diamonds after Namibia

So far this year, De Beers says it bought Angolan diamonds on the open market at the same rate as last year De Beers has licensed buying offices in Angola but most of the diamonds are bought outside Angola.

The question is whether diamonds will continue to come out in the dry season when production should be higher Fighting in the diamond-producing regions of the Lundas will massively reduce production

An immediate peace settlement involving Unita's surrender of its main base in the Cuango valley back to the government will also drastically cut production Unita is Angola's main producer of diamonds

Paulino Neto, Endiama's director of mining and marketing, suggest[s] Unita produces 80% of Angola's gem[s] — the proportion of output that came from Cuango before Unita's occupation of the diamond fields in 1992 Bu[t] international industry sources pu[t] the figure closer to 66% of the tota[l] output, estimated at $1- to $1,2-billion last year Unita mined, on this count between $600-million and $800-million of diamonds last year alone

For De Beers's current profit level to be maintained means that diamonds continue to be smuggled ou[t] of the country Gem quantities fron legal production in Angola would be considerably lower for the time being, until new mining projects ge[t] underway.

De Beers has prospecting rights in Angola, although Unita is blocking access The mining arm of De Beer[s] wants this settled quickly, but the Central Selling Organisation will be the loser in a speedy settlement. A[t] present Unita is offering to vacate the mines by the end of November, so production will continue for a few months during the crucial dry season and aid De Beers's profit margins

Diamond giant fends off child labour claim

Mungo Soggot

De Beers survived its maiden presentation to the parliamentary portfolio committee on mineral and energy virtually unscathed last week. It all went very smoothly until question time when Inkatha Freedom Party MP Dr Kisten Rajoo lashed out at the diamond giant for exploiting child labour in India, where there is a massive, cheap, cutting industry.

"You are perpetuating child labour," Rajoo shouted. "De Beers is a large, monopolistic exploitative company which has made a hell of a lot of money. You had better watch out you don't exploit our labour here," he warned the company's representatives, adding that De Beers had done nothing for South Africa.

De Beers's Garath Penny stepped in gently. "I would be delighted to answer the question," he said. "If we find a cutter is using child labour we do not use them."

Penny added that many of the Indian cutters were supplied by Argyle, the Australian diamond operation that broke away from the Central Selling Organisation (CSO) last year

There was also a quiet pitch to anyone in the government concerned about De Beers's contribution to South Africa Penny said the company paid R2-million in tax every day of the week — including Sundays. And he said it paid about four times to charity what the average British company did.

It was the first time De Beers had spoken to the committee, which is understood to have requested the presentation in anticipation of the findings of the commission of inquiry into the diamond business being chaired by Judge Dennis Levy.

Alexkor chief quits in sell-off row

(216) M+G 29/8-4/9/97

Mungo Soggot

Alexkor, the state diamond producer, is seeking a new head after the resignation of its managing director amid severe tensions over the struggling mine's privatisation.

A representative of the Ministry of Public Enterprises, Wandile Zote, said this week that JD Vermeulen, the managing director, had resigned for health reasons However, it is understood that Vermeulen has been threatening to stand down for some time because of mounting political turmoil surrounding the mine's privatisation

The mine's management is understood to have clashed with the ministry over its restructuring plans Public enterprises has been accused of lacking direction over its Alexkor plans, and is believed to be keen to reach a final decision on the mine's sale by the year-end. Vermeulen was unavailable for comment this week

Earlier this year, a committee set up to handle the mine's privatisation suspended the process, declaring a dispute with the government The committee included representatives from the company, labour and the provincial government It was reported that the committee was an gered by the Minister of Public En terprises Stella Sigcau's refusal t heed its advice on corporate gover nance issues

Plans for the mine's privatisa tion have also been complicated b local Northern Cape politics Loca politicians are keen for their regio to benefit from any sale

Vermeulen also had to confror an increasingly poor performanc by the mine, which has been hit b widespread theft and smugglin The mine has asked diamond g ant De Beers to help beef up its se curity.

Narrow escape for De Beers

Government considered breaking the diamond cartel to boost black economic empowerment, writes **Mungo Soggot**

(216)

The Ministry of Minerals and Energy has investigated using apartheid-era legislation, which gave local diamond cutters a special deal, to promote black empowerment in the cutting industry. The strategy, which would have involved restricting De Beers's exports, reveals the ministry's antagonism towards the diamond giant and its failure to accept the highly unusual cartel like workings of the diamond industry.

Documents from the ministry show it considered using the 1986 Diamond Act to make South African producers sell their diamonds to local cutters, in a bid to stimulate black empowerment. It even dispatched a lawyer to international diamond centres to see how the industry works.

But the ministry's lawyer, Advocate Nazir Cassim, SC, not only vetoed the plan but also recommended deregulating the agreements that give South Africa's cutters a choice of the world's best diamonds. Cassim, who sits on the Diamond Board, says the Act "does not serve the purpose which the minister and the new board [the Diamond Board] would like to achieve. However, the object can be achieved by co-operation in promoting a sound industry. De Beers is a South African company and our loyalty must lie with De Beers in this context."

The ministry's initiative is understood to have been led by Linda Makatini, special adviser on mineral policy to Minister Penuell Maduna. Makatini, who has had a stint as acting chief of the Diamond Board, was unavailable for comment.

The legal opinion drawn up for Maduna's office states that the minister insists the board create opportunities to promote employment and "redistribute the country's resources to benefit the populace".

The document explains to the ministry exactly how the diamond market works — namely that the Central Selling Organisation (CSO), which controls about 80% of the world's rough diamonds, restricts the supply of gems to buoy prices. It notes there are very few black operations in the cutting industry, which employs only 2 000 people. But it suggests De Beers should continue supporting the training schemes.

'De Beers is a South African company and our loyalty must lie with De Beers'

What makes the ministry's strategy intriguing is that under the Diamond Act, South African diamond cutters already enjoy an arrangement with the CSO — De Beers's London-based marketing arm which regulates the world diamond market — that is more favourable than anywhere else in the world. All diamonds that are cuttable in South Africa are cut here. These agreements are monitored by the Diamond Board.

It has also emerged that South African cutters have been selling on millions of dollars worth of the rough diamonds they receive under this special agreement. *Diamond International* reported in its latest edition that of the $400-million in rough diamonds South African cutters bought last year — $331-million of which came from De Beers — they had polished only $316-million worth of their own. The rest of the top quality rough diamonds were sold.

When the Diamond Act was drafted in 1986 it said South African diamond producers — De Beers and other smaller producers such as state-owned Alexkor and Rembrandt's Transhex — should offer economically cuttable diamonds to local cutters or face a 15% export duty. But as South African mines are no longer key producers of the top quality gems that local cutters demand, the Act was rejigged in 1993. An amendment to Section 59 stated that South African producers could have access to the CSO's full range of diamonds in London.

The Section 59 agreement says all South African stones weighing over 10,8 carats are reserved exclusively for South African cutters, as are rare stones, known as "fancies".

Jack Jollis, managing director of Transhex, warned in 1995 of the dangers of diamond producers being forced into creating employment and "adding value". He said the drive to set up cutting operations can stem from "political pressures to create employment and add value. This political pressure is often fanned by ill-informed pronouncements by parliamentarians and the media who are almost certainly ignorant of the unique nature of the diamond business."

Diamonds are forever: The cartel continues to be favoured

M+G 29/8 – 4/9/97

CT (BR) 4/9/97 (216)

DIAMONDS

Traders call for harsh terms for illicit dealers

Illicit diamond trading [illegible] resulted in losses [illegible] billion each year, and big [illegible] companies [illegible] hing for the [illegible]

[illegible] ion of money into the [illegible] diamond industry has heard [illegible] President [illegible] hip of [illegible] hearings on October [illegible] and will then make [illegible] lations to Penuell Maduna [illegible] [illegible] minerals affairs committee yesterday.

[illegible] port, De Beers [illegible] ader [illegible] access to diamond land [illegible] controlled about [illegible] used diamond lands were sold at [illegible] lly high prices, which small-scale [illegible] ding them from [illegible]

'Corrupt police contribute to huge diamond losses'

Linda Ensor BD 4/9/97 (216)

CAPE TOWN — The diamond industry is losing more than R1bn a year through theft and illicit trafficking, but policing is deficient because corrupt policemen are using confiscated diamonds to enrich themselves, a commission of inquiry has been told.

Authorised diamond dealers have told the inquiry into the diamond industry that the relevant division of the police force must be investigated.

Dealers have also appealed for harsher sentences to be imposed against illegal traders.

Big diamond companies have called for a prison sentence of not less than 20 years or a minimum fine of R500 000. However, small-scale miners argued that sentences should match the value of the transaction.

A brief report on the hearings of the commission under the chairmanship of Judge D Levy — which started sitting in February — was presented to Parliament's portfolio committee on mineral and energy affairs yesterday.

Small miners complained about De Beers' monopoly of the industry and believed government should end this and play a role in transforming and developing it. They also called for greater access to diamond land.

"Unused diamond lands are sold at abnormally high prices that are not affordable to small-scale miners. This is viewed by the small miners as a way of excluding them from the industry," the report noted.

"A representative of the Federation of Black Diamond Dealers submitted that government must help the communities that were forcefully removed in diamond areas in reclaiming their land. He also said government should provide financial support for small-scale miners for effective mining."

Small miners also objected to policemen using the trapping system to catch illegal traders, seeing it as a plot to strip dealers of their belongings.

However, large diamond companies supported trapping as a way of controlling theft

Plan to cut diamond exports

(2/6) M+G 5-11/9/97

The energy ministry proposes to stop exports to boost local employment, writes **Mungo Soggot**

The Minister of Minerals and Energy, Penuell Maduna, wants to cut or stop altogether the export of diamonds from South Africa — a strategy that would severely threaten the survival of the De Beers diamond cartel

The minister's special adviser on mineral policy, Linda Makatini, said this week the ministry was anxious to stimulate the local cutting industry, which, according to De Beers, handles about half of the value of locally mined diamonds

"The goal should therefore be to reduce if not eliminate the export of diamonds and this will go a long way towards addressing the unemployment problem, the growth of our economy, as well as skills transference to all South Africans. Only then will we be able to truly say that the mineral wealth of the country belongs to all South Africans," Makatini said in a statement to the *Mail & Guardian*

She was responding to an *M&G* report last week which said the ministry had tried to use the Diamond Act to restrict diamond exports to promote black empowerment The report quoted a legal opinion given to the ministry rejecting the Diamond Act plan

But although the legal opinion acknowledged plans to boost black empowerment in the cutting industry, it did not say the ministry would consider the extraordinary step of stopping all diamond exports

Most locally cut diamonds are large, prized stones which account for only 3,5% of the weight of South African-mined diamonds, says De Beers. South African cutters enjoy a special arrangement with De Beers in terms of which all diamonds that are cuttable in South Africa are handled here Since 1993 local cutters have also been offered a pick of the best diamonds sold by the Central Selling Organisation (CSO), De Beers's London-based marketing arm.

The remaining, less valuable, South African stones are cut abroad in centres such as India, where labour costs are a fraction of those here. South Africa is the fourth most expensive diamond cutting centre in the world after the United States, Belgium and Israel

Analysts said this week South Africa could not hope to compete against cutting centres in China and India De Beers was equally sceptical of the minister's plans, but reiterated that it fully supported promoting the local cutting industry

"Realistically, it is going to be almost impossible to get to a position where 100% of South Africa's diamonds are cut locally This is quite simply because South Africa is competing directly with India and other centres such as China, where cutters work for the going rate of less than 50c an hour The approximate equivalent cost in South Africa is nearer to $4 an hour, an order of magnitude of hundreds of percent difference!" the company's communications department said

"Put another way, if there were qualified and experienced South African-based workers willing and able to work for wages of R400, or less, a month for a 50-hour week [India's cutting industry norm], and if it were possible to add value by polishing the diamonds locally, then De Beers would be first in the queue to sell diamonds to those cutters "

One analyst said the ministry's plan would be an "inelegant way of stimulating the industry Instead they could try training grants and tax breaks," he said.

But Makatini said Maduna hoped that the De Beers diamonds currently not deemed cuttable in South Africa would "in the near future remain in the country"

She said that a "vast number" of diamonds were exported by independent South African producers — all of which, however, are part of the CSO "To promote this, the minister advocates the training of newcomers into the industry to do what was in the past considered impossible for South Africans " There are very few black enterprises in the local cutting industry, which employs about 2 000 people

De Beers said it would continue funding local training programmes

A 'lesson in power' for renegade gem mine

(216)

20-5/9/97

MELBOURNE — The De Beers-run Central Selling Organisation (CSO) had shown itself to be every bit as rough and hard as the stones it sells, punishing a renegade Australian mine in a clear warning to other challengers, market analysts said yesterday.

The might of the cartel, which controls about 75% of the world's rough diamond market, could be seen this week in the results of one of the owner's of the world's biggest diamond mine.

Ashton Mining, which owns 40,1% of Australia's Argyle mine, reported a fall in sales and profit for the six months to the end of June, continuing a painful trend since the mine turned its back on the CSO in the middle of last year.

Ashton blames a market downturn and denies it would have done any better had Argyle stayed with the CSO, but David Walker, head of mining research at brokerage ABN Amro Hoare Govett, says he has no doubt that the CSO played a part. "It's a clear lesson on power," he said.

The lesson was partly meant for another possible challenger, Broken Hill Proprietary (BHP) of Australia, which hinted this week that it could not afford to snub the CSO.

BHP is developing a major new diamond mine in Canada's Arctic, due to start up late next year, and is expected to produce about 4% of world diamond supply in volume terms.

There has been intense speculation over whether BHP will follow Argyle, operated and controlled by Anglo-Australian mining giant Rio Tinto, out of the CSO.

On Wednesday, BHP signalled it would not. "If we go totally the other way (to independent marketing) then De Beers will get us," BHP chairman Jerry Ellis is reported to have told an informal meeting with shareholders.

Resources analyst Umit Safak of brokerage HSBC James Capel said BHP, like Russian producers, were likely to have a bet each way, selling both via the CSO and direct to the market.

"The people who are most in bed with the CSO are the Russians, but even they sell a small portion of their diamonds directly into the market," Safak said — Reuter

BUSINESS DAY, Friday, Septembe

Diamond squad is battling 'powerful syndicates'

(216) BD 5/9/97

Linda Ensor

CAPE TOWN — Diamond theft and illicit diamond trafficking had become big business in recent years, attracting the interest of powerful local and international syndicates, De Beers group executive for diamond security Alan Grose said in a submission to the commission on illicit diamond trafficking

The commission heard evidence that diamond theft and illicit dealing resulted in a loss of more than R1bn a year.

Grose said it was difficult to establish precisely how much diamond production was being stolen but statistics gave some indication He noted that in 1996 about 576 cases of illegal diamond dealing were recorded by the gold and diamond branch of the police A total of 6 863 carats worth R8,6m was recovered.

"In one of these cases, a rabbi was caught with uncut diamonds worth over R4m packed carefully into condoms concealed in his rectum More recently two Israeli females were apprehended at Johannesburg International Airport with uncut diamonds worth some R3m, once again packed in condoms secreted inside their bodies "

In Namibia last year police reported 64 cases of unlawful possession of gems worth N$640 530. Previous cases included a Lebanese and an Italian caught buying diamonds worth N$4,5m A South Korean diplomat was caught with uncut diamonds worth N$2m

Meanwhile, it has emerged that Modise Khoza resigned in controversial circumstances two months ago from the commission of inquiry probing the diamond industry In a letter, the Johannesburg senior advocate told Mineral and Energy Minister Penuell Maduna that he was forced to resign for reasons beyond his control but did not elaborate

According to the commission's chairman, retired judge Denis Levy, Khoza resigned after submitting a request for payment of R50 000 for four to eight days' work a month The request was refused and he then resigned

Khoza admitted that finances were one reason for his resignation, but said there were several others as well, including his dislike for Levy

He said that as a commission member he earned R750 and as the commission only sat about two days a week, this meant a monthly salary of at most R6 000. This compared with average advocates' fees of R3 000 to R6 000 a day.

"The commission was taking too long to complete its work and I was suffering a financial loss. .

"I could hardly cover my costs, which I didn't mind at the beginning, but the commission dragged on for so long If it had applied itself diligently to the work we could have finished it in six months

"And I could not tolerate that judge anymore. He had scant regard for blacks."

Levy would not comment on this attack, which he said Khoza had dreamt up after his request for more money was turned down

The diamond cartel is as hard as the stones it sells

(216) ST 9/9/97

THE world diamond cartel has shown itself this week to be every bit as rough and hard as the stones it sells, punishing a renegade Australian mine in a clear warning to other challengers, market analysts said this week

The might of the De Beers-run Central Selling Organisation (CSO), which controls 75% of the rough diamond market, could be seen this week in the accounts of an owner of the world's biggest diamond mine in Australia, an analyst said

Ashton Mining, which owns 40 1% of the Argyle mine, on Wednesday reported a fall in sales and profit for the six months ended June, continuing a painful trend since the mine turned its back on the CSO in mid-1996

Ashton blames a market downturn and denies it would have done any better had Argyle stayed with the CSO, but David Walker, head of mining research at brokerage ABN Amro Hoare Govett, said he had no doubt the CSO played a part "It's a clear lesson on power," he said

'The last thing you want is to go head-to-head with the CSO and find yourself in a price war'

The lesson was partly meant for another possible challenger, Australian miner Broken Hill Pty (BHP), which this week hinted it could not afford to snub the CSO, he said

BHP is developing a major new diamond mine in Canada's Arctic, due to start up late next year, and expected to produce about 4% of world diamond supply in volume terms It is expected to yield revenues of about C$500-million a year for at least 25 years Much of the output will consist of gems, the most lucrative market segment

CSO spokesman Andy Lamont confirmed the cartel had met BHP There has been intense speculation over whether BHP will follow Argyle, operated and controlled by Anglo-Australian Rio Tinto, out of the CSO

This week, BHP signalled it would not "If we go totally the other way (to independent marketing) then De Beers will get us," BHP chairman Jerry Ellis is reported to have told an informal meeting with shareholders on Wednesday Ellis also told the briefing that BHP would run into US antimonopoly laws if it chose to sell solely via the CSO BHP declined to confirm the comments, but the shareholders' group did

The comments raised few eyebrows with commodities analysts who have long believed BHP will opt to sell a portion of the diamonds via the CSO and the rest direct to market

BHP owns 51% of the mine and Canada's Dia Met Minerals 29% The rest is held by the two geologists who discovered the diamonds

Graham Nicholls, a spokesman for the project in Canada, said no decision had been made He labelled reports BHP was close to a deal with the CSO as "opinion" and "conjecture"

"Common sense would suggest that you can steer a middle road, keep the CSO on side and in the meantime learn from them and conduct your own outside activities and build them up over a period of time," a Melbourne-based analyst said "The last thing you would want to do is go head-to-head with the CSO and find yourself in some sort of price war"

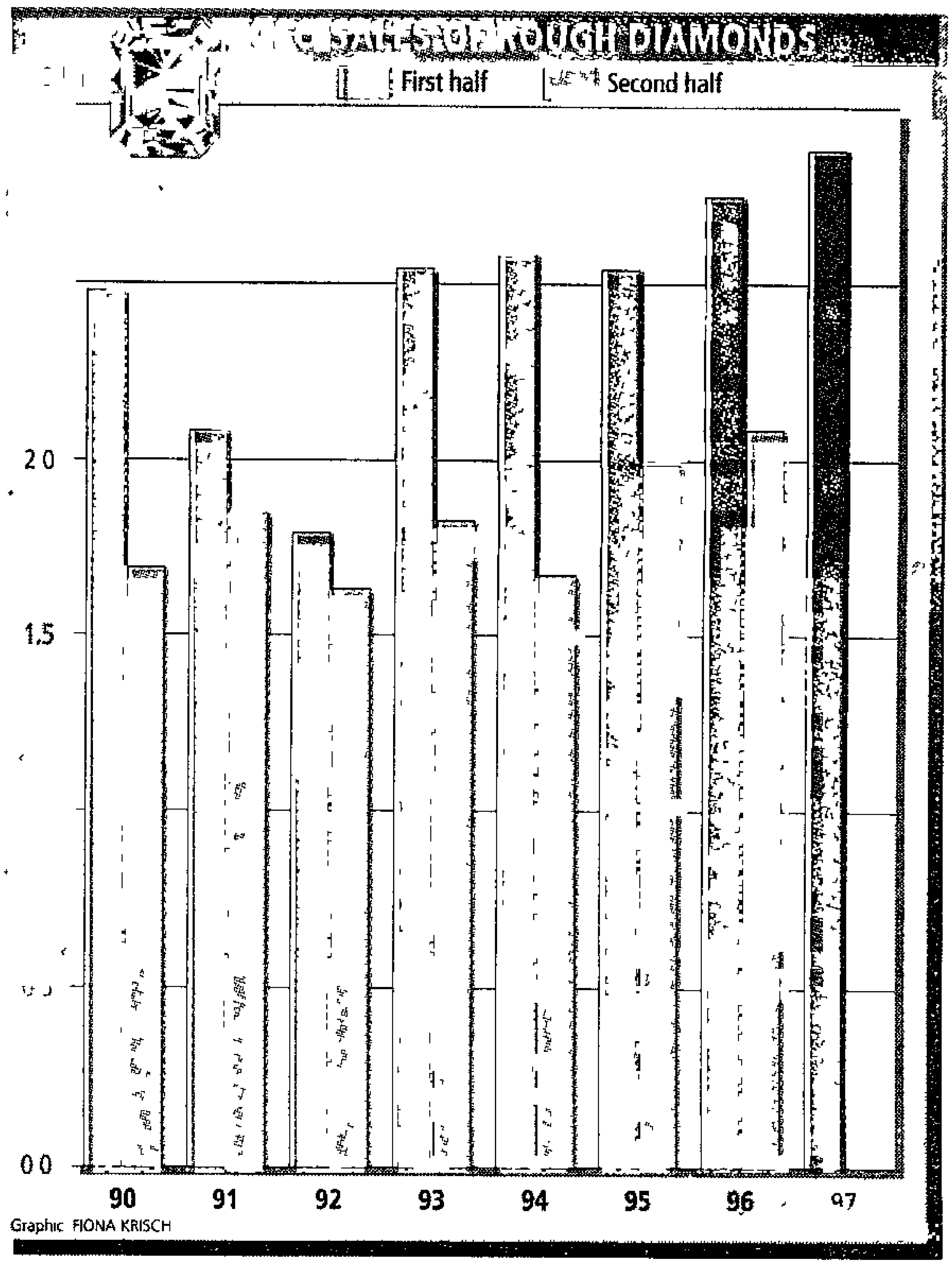
The CSO takes a commission of about 10% of sales from producers and can defer purchases from them

Resources analyst Umit Safak, of brokerage HSBC James Capel, said BHP, like the Russian producers, were likely to have a bet each way, selling both via the CSO and direct to the market

"The people most in bed with the CSO are the Russians, but even they sell a small portion of their diamonds directly into the market I don't think the situation with BHP will be different"

But BHP is better placed to strike a deal with the CSO than the Argyle owners were, the Melbourne analyst said

The Lac De Gras mine in Canada boasts a much higher-quality product than the huge Argyle pit "They (BHP) will probably end up with a much better deal," he said — *Reuter*



Graphic FIONA KRISCH

De Beers, Russia insist they have forged an accord

(216) BD 22/9/97

Neil Behrmann

LONDON— De Beers, the Russian government and Almazy Rossii Sakha, Russia's diamond producer, insist that they have at last forged an agreement

Despite scepticism from analysts who have been disappointed by many false starts, De Beers executives firmly believe details of the accord will be announced next month

Last week's preliminary agreement took place in Moscow between representatives of De Beers headed by Gary Ralfe, MD of De Beers's Central Selling Organisation, Almazy and GS Kuznetzov, deputy finance minister of the Russian Federation and head of Gochran, the Russian treasury.

After protracted negotiations the parties agreed to compromise on the original trade accords proposed by the two counter parties

"This is definitely promising because it followed a Russian presidential decree and government resolution in July," said Joan Braune, a De Beers spokesman who specialises on Russia

Diamond dealers close to the Russians agree with this view Yet the best diamonds produced and exported from the Gochran stockpile will be sold to the Russian diamond polishing industry, say dealers

"Of course the agreement will be dressed up as an excellent compromise that suits De Beers shareholders," a dealer said "In practice De Beers will receive a much smaller proportion of Russian diamond export sales than the accord of the early 1990s and it will have second choice on qualities"

One dealer estimated that exports to De Beers would be $800m out of Russian sales of $2bn a year Part of these will come from the Gochran's stockpile. In the previous five-year accord, De Beers bought 95% of Russia's annual $1,2bn official diamond exports But independent sales, mainly from the stockpile, accelerated and total exports were at least $2bn, according to De Beers and dealer estimates

De Beers directors told dealers they did not want the company to be the "dustbin" of inferior Russian diamonds However, although directors were likely to announce early next month that the Russians had compromised and will sell many more better gems to De Beers, the prime quality diamonds were still likely to end up in the hands of local Moscow diamond cutters, said a dealer who deals extensively with the Russians About 30 to 40 of these cutters were involved in joint ventures with Antwerp and other foreign manufacturers, he said.

A dealer dispelled the "myth" that there would eventually be a shortage of Russian diamonds because the Gochran stockpile was being run down. On the contrary, production was likely to increase, he said. "Mirny, a diamond-rich mine had water problems, but pumping has succeeded and further deep-level mining will commence. This means Russian output will be much larger than some stockbrokers expect"

Some analysts estimate Russian production is $1,1bn, but the dealer contends those estimates "do not match reality".

Meanwhile, De Beers and diamond dealers say Russia has thus far delivered only about half of the $165m in diamonds the cartel bought for cash in the first quarter The diamonds were held up at customs and Antwerp and London dealers have encountered similar problems Russian customs officials have demanded more specific information on qualities and pricing De Beers is expecting delivery of the remaining portion, but is unconcerned because it has not returned all the diamonds that were held as collateral when it lent Russia $1bn in the early 1990s

More De Beers rough diamonds for Armenia

216

YEREVAN — SA diamond group De Beers planned to boost its rough diamond supply to Armenia, an official from Armenian diamond producer Shogakn said yesterday.

State diamond producing enterprise head Gagik Abramyan said an agreement between De Beers and Shogakn was reached during a recent visit by De Beers representatives to the former Soviet republic.

He did not specify the volume of supplies envisaged after the agreement

"Since 1995 and up to now, De Beers supplied Armenia with rough diamonds totalling 40-million carats, making it possible to have an annual (cut) diamond production of 40-million," Abramyan said

Diamond producer Shogakn was set up in 1981 with an annual cut production capacity of 100 000 carats. The enterprise produces cut diamonds from 0,01 to 2 carats

The cost of one carat cutting at Shogakn is $25.

"This cost is two, sometimes five times higher than in South Asia and southeast Asia," Abramyan said.

He said Shogakn used its own money and credits allocated by foreign partners to purchase rough diamonds

"(The) Belgian company Backes & Strauss allocates to Shogakn 5-million-6-million and purchases $25m worth of cut diamonds a year"

He also said the company was keen to develop ties with Russia, its main supplier until last year

"Co-operation with Russia is very profitable for us in both economic and political terms," Abramyan said

Russia's diamond monopoly is Almazy Rossii-Sakha, which is in talks with De Beers to reach an agreement on a gem exporting deal — Reuter.

BD 25/9/97

MINING *Shares issued to fund diamond exploration*

ODM raises R24,9m

CT (BR) 29/9/97 (216)

LYNDA LOXTON

Cape Town — Ocean Diamond Mining Holdings (ODM), the sea diamond mining company, has raised R24,9 million through a private placement of 3,6 million new shares to fund new development projects in its diamond mining concessions off the Namibian coast.

Shareholders on Friday unanimously approved the share issue to Growth Equities Trust, a small companies fund run by former investments editor Jeremy Woods

A significant portion of the placement, which represents 10 percent of ODM's existing issued ordinary share capital, went to leading Cape-based investment house Coronation

The shares were issued at R6,81 each, determined after agreeing to a 5 percent discount on the average price on the last 30 trading days up to August 26, the day that the deal was clinched. The share was trading at R6,45 to R6,55 last week

"This is one of the best shares on the JSE, with outstanding growth potential for the next few years," Woods said

Andre Louw, ODM's managing director, said the placement would broaden the company's shareholder base while providing funds for several exciting development projects

Louw said the funds raised would be used for new development projects, including a trial mining project for low-grade ore, the construction of a new underwater dredger and the development of a real-time visualisation system to improve mining efficiencies

"We are also investigating the deployment of another vessel to add to the two that are now sampling and mining diamonds off the Namibian coast," Louw said

He said diamond production by ODM, which is due to release its half-year results tomorrow, was ahead of schedule of its 26 000 carats target for the half-year.

He expected a significant increase in production for the year as a whole

"Everything is going like a steam train," Louw said

The last time ODM raised capital through the issue of shares was in 1994, when it had a R57 million rights issue

Diamond cartel cuts supply as industry's anger mounts

BD 29/9/97

Neil Behrmann

(216)

LONDON — De Beers' London-based Central Selling Organisation (CSO) is reducing diamond supplies to the market because of declining market conditions in Japan and southeast Asia, and slack demand in Europe.

The company and dealers say De Beers' sales or "sights" were below the norm in August and September, even though the diamond trade should be cutting diamonds to prepare for the Christmas season The US is currently the only buoyant market, while the Chinese market, although still small at this stage, is growing rapidly.

There are 10 "sights" a year, and this year sales have been below the average of $480m a sight.

A De Beers official said the CSO had also cut supplies in response to concerns in the diamond-dealing community, which is suffering from poorer margins and tougher trading conditions

In an unprecedented move, leaders in the diamond dealing and processing industries passed a resolution recently complaining that De Beers' monopoly was damaging their businesses "Pricing and marketing policies of De Beers resulted in unacceptably low profitability, which threatens the viability of diamantaires worldwide," the resolution said

Eli Izahakoff, the New York-based president of the World Federation of Diamond Bourses, the diamond-dealing marketplace, said "It was a spontaneous statement and I even had to tone down the wording "

A London dealer noted that diamond dealers and cutters had "grovelled before De Beers for years because it was their sole source of diamonds" But growing numbers of producers were either breaking away from the cartel or selling a greater proportion of their diamond production independently

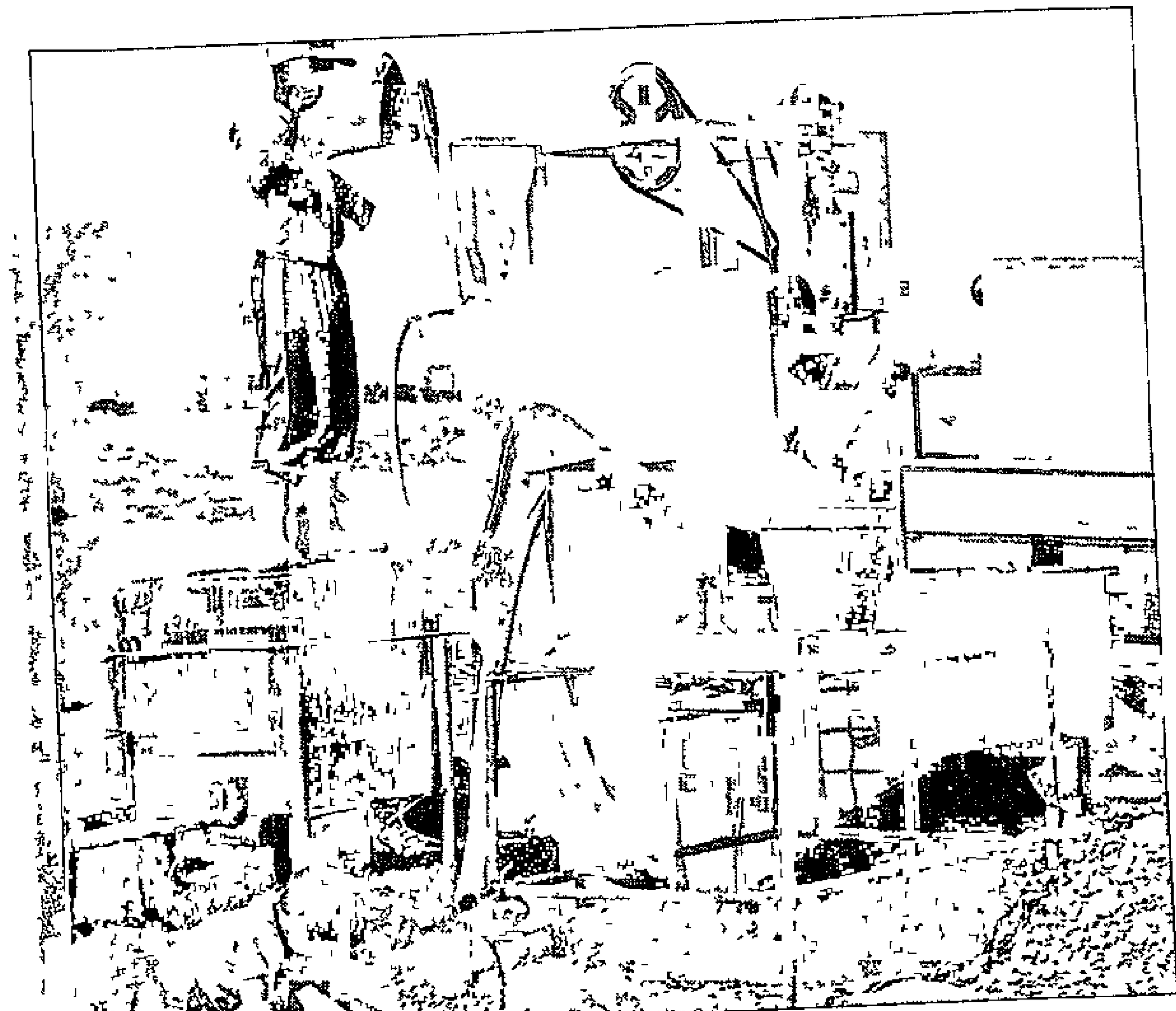
He said buyers were coming to the realisation that they could get better deals elsewhere De Beers was losing market share to Russia, Australia, Angola and Zaire, while next year large players in Canada would enter the market

De Beers currently controls about 70% of the $7bn global rough diamond market, but diamond dealers and analysts expect this to shrink rapidly as Canadian output comes on stream and Russia sells more gems independently

Stung by the federation's rebuke, De Beers chairman Nicky Oppenheimer wrote to Izahakoff, saying dealers' concerns would be at the "forefront" of policy appraisals in coming months And a De Beers official said the company operated on the basis that the long-term health of the industry was "dependent on profit at all stages of the diamond pipeline"

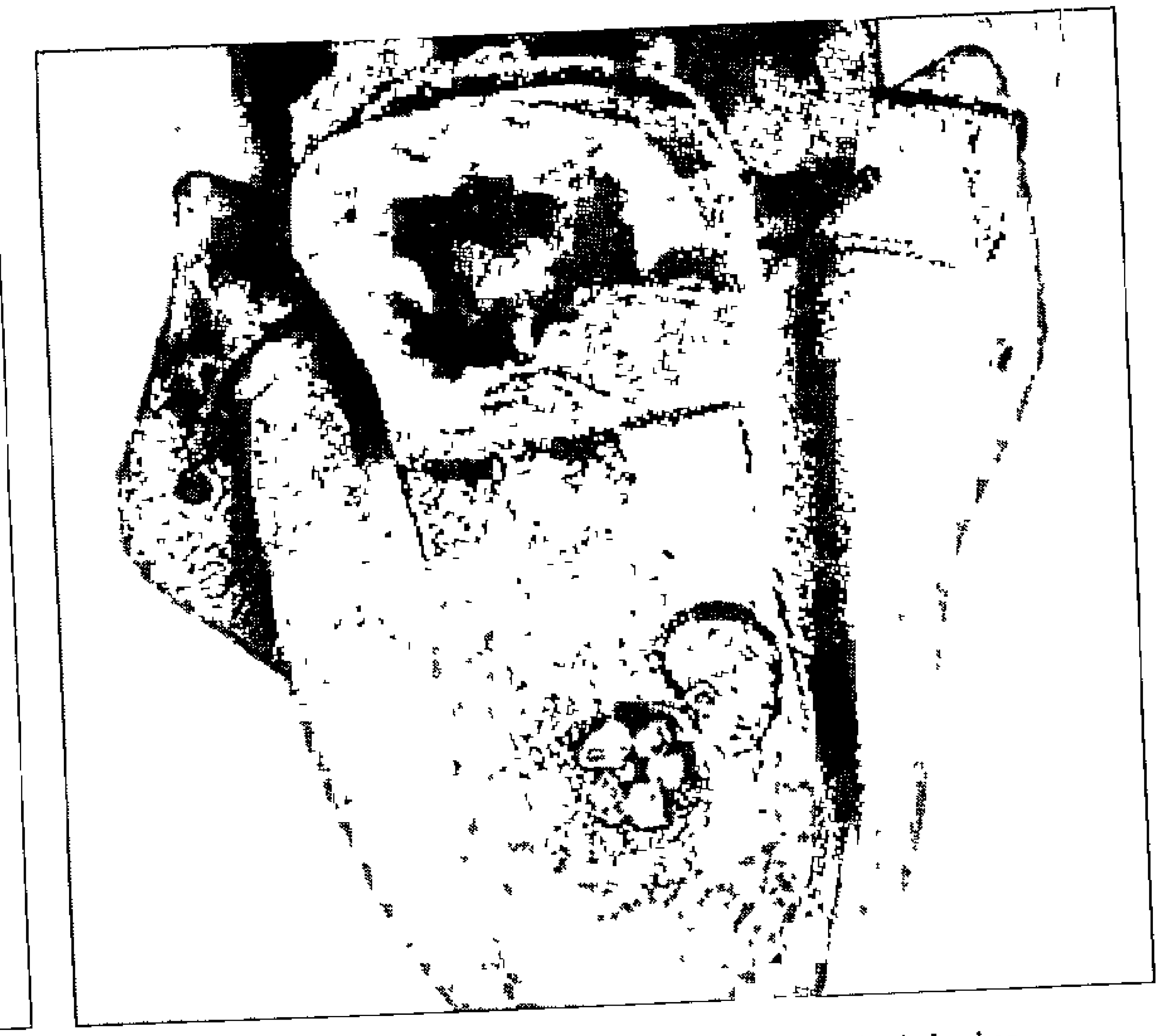
"Dealers may believe that De Beers is omnipotent, but world business conditions are beyond our control," he said

But Izahakoff complained that profit erosion had intensified in the past three years and diamond cutters, dealers, distributors and jewellers were suffering. In recent years the company had begun favouring large and powerful diamond dealers and cutters over medium and smaller-sized firms, which were under the most pressure, he said



Hard graft: technology might have made an impact but much of the work is still manual

Treasure: the weekly diamond market in Kruger Street is reputedly the largest open diamond market in the world



Hidden: a method for smuggling diamonds in the hollowed-out heel of a shoe

Diamond fever grips desert diggers

The Big One's out there under the drought-dry farmers' crops

(216) ARG 4/10/97

It's a precarious way to make a living, but diamond-digging has all the ingredients to spice up life. there's intrigue, greed, heartbreak – and occasionally the lucky strike which can make a individual's fortune. **Craig Urquhart** visits the diggers of the diamond-rich North West Province

"If you want us all to get killed, then write your article," said an irate diamond digger at the weekly diamond auction in Wolmaransstad.

The khaki-clad former farmer claimed that diamond prospectors in the area lived in fear of their lives and "outside visitors" were not welcome

"I know someone who was shot seven times for his diamonds – go talk to him," he added

His sentiments were echoed by most diggers in the diamond-rich North West Province which has been plagued by greed and racked by diamond-induced violence in the past.

They are adamant that any publicity for this last outpost of diamond fever is adverse because "outsiders" have been known to move in and target diggers for their diamonds and cash Others have been known to sleep next to their claims at night

"There are a lot of diamonds here and a lot of money can be made But where most people get it wrong is that it costs a lot of money to mine the stuff The days of tripping over big diamonds are long gone," said local digger Braam Pretorius

And the starry-eyed, sun-burnt men panning the alluvial-rich river beds with calloused hands are also a thing of the past

The weekly diamond market in Kruger Street, in the centre of Wolmaransstad, is not for the faint-hearted It is reputedly the largest open diamond market in the world and every Friday "buyers" and "sellers" converge on a square near the centre of town [illegible] over th[illegible] litterin[illegible] finds Under the watchful eyes of security guards armed with shotguns, millions of rands exchange hands each week

The diggers arrive from the Wolmaransstad district from such faraway places as Bloemhof, Barkley West and Kimberley and move from office to office, showing off their diamonds and negotiate until an agreement is reached The 50 offices are mostly owned by private buyers, but buyers from several De Beer's affiliated companies also attend

It's perfectly legal with government-issued licences keeping the process in check, but a Wild-West atmosphere still pervades

"Sonny", who has been trading for 17 years, said diggers had been known to pass off glass fragments among their hauls and it takes an eagle eye to sort the stones and weigh them

"While the turnovers are now substantially smaller, the margins are higher In real terms, we are making the same as we were 10 years ago, but we can't complain," he said

Many of the diggers are farmers who have been particularly hard hit by drought in the North West Province, Free State and Northern Cape, and have turned their attention to the diamond-rich soil under their withered crops

Others mine the river beds on their farms, searching for that elusive sparkle in the gravel that could mean instant wealth.

"The drought has caused many of us to turn to diamonds and some have had more success than others

"I've been in this game for only two months, but it's long enough to know that this is hard work and the money you make depends on the amount you put into it with equipment and labour

"Believe me, it's not cheap," said Piet Botha, who had travelled to the auction from Schweizer-Reineke

And they all concede that it's as dangerous as gambling

One month they are able to find a fistful of diamonds, while the following months could produce nothing

The average yield of diamonds is between two and five carats for every 100 tons of gravel mined It's backbreaking, heart-wrenching work, with absolutely no guarantee

"We are all after the big ones The only consolation is that they are out there and the guys are still finding them

"Last month one of the guys found a 232-carat worth R28-million," Mr Pretorius said

A buyer who refused to be named said the diamonds were on are par with those in Angola – "the best in the world"

With a large revolver tucked into his trousers, he removes one of dozens of folded paper parcels from his shirt pocket and unwraps it Six small stones of varying colours spill on to his desk "This is worth about R17 000, but so much depends on the colour and the quality – it's not just about size," he says

Fifteen kilometres west of Wolmaransstad a grader tears into the soil and two large mills groan as they separate the sludge from the gravel that could contain the sparklers

But it's been two weeks since Piet Bams and his labourers have come across a diamond Each day he sifts through tens of thousands of colourful stones, but there are no diamonds in sight For an outsider many of the brilliantly clear quartz stones resemble diamonds, but Mr Bams just tosses them away

"A diamond is like the brightest star on the darkest night You can't miss it It jumps out at you dramatically," he said

All over the district similar holes are being dug And into all of them men peer with longing written in their eyes The Big One" is out there!

Diamond buyers judge the quality of their stones by four factors, known as the four C's

COLOUR: The stones are graded by their colours which range from absolutely colourless (otherwise known as blue-white) to the light-yellow diamonds known as Capes or yellows. The Geological Institute of America grades diamonds on a scale from D to Z with diamonds closest to a D grading regarded as the most valuable

CLARITY: The finest diamonds are flawless which occurs when internal inclusions cannot be detected using powerful magnifying glasses

CUT: Buyers prefer diamonds which are perfectly round when viewed from above with facets that resemble eight points of a star within the circle. Other sought after shapes include oval, pear and emerald, but they are significantly cheaper

CARATAGE: One carat is one-fifth of a gram The value per carat is determined by the colour of the stone, with the rare high-grade blue-whites by far the most valuable

MARINE MINING

Tide can turn for becalmed Benco

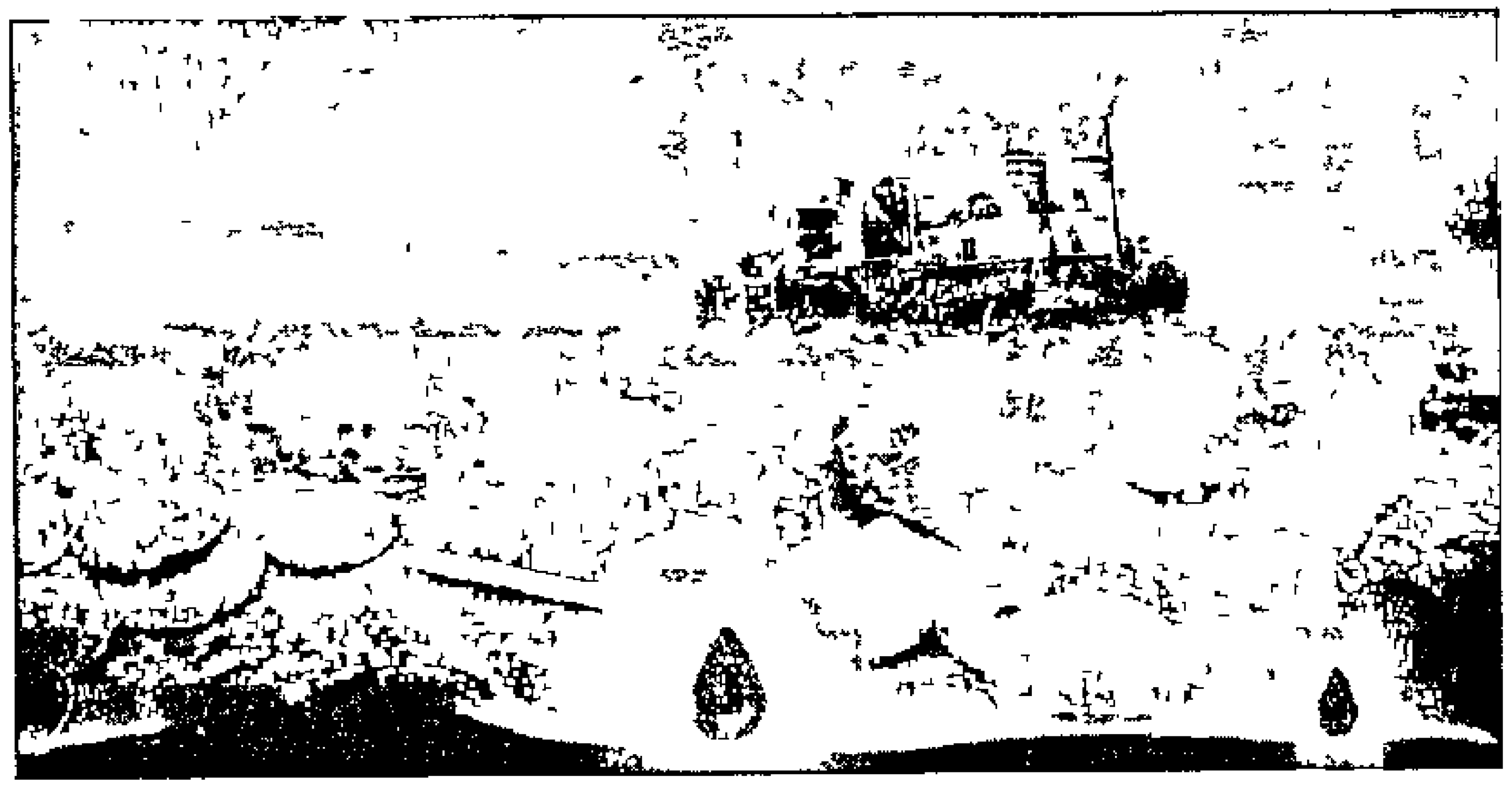
CT (MR) 8/10/97 (216)

MARC HASENFUSS

Benguela Concessions (Benco), the marine diamond miner which had a long ride on the crest of a speculative wave, now looks strangely becalmed as the investment tide retreats to more cautious ground.

Benco, which scours the murky and oft-stormy waters off the Namaqualand coast, touched an annual high of R6,45 in late March when news leaked out of the company's initial mining successes in concession 2(b) near Alexander Bay.

Better than expected prices of $238 a carat for the first batch of diamonds also fuelled sentiment.



Unfortunately, Benco's long awaited shift from a mining exploration company to a diamond mining company was a difficult one.

First the Moonstar, a 30-year old coaster converted into a R50 million mining vessel, snapped its moorings in the West Coast's winter blasts. Soon afterwards it was forced to steam a long retreat to East London to repair a hole in the engine room.

These setbacks sent production targets and investor sentiment for a loop. The share price has since plunged to around R3.

Although mining analysts would argue that production setbacks are typical of any small-scale mining operation, one cannot blame investors for bailing out in light of the bullish statements uttered earlier by Benco executives.

It's difficult to explain the importance of technicalities like bulk sampling or delineating reserves when these aspects are not visible at the bottom line. The popular viewpoint, unfortunately, still holds that if Ocean Diamond Mining (ODM) could profit so handsomely (and so quickly) from acquiring a mining vessel then why not Benco?

But investor's fast buck dreams should be put on the back burner. As hopes of big carat hauls by the Moonstar recede, there is clearly a hint of conservatism emerging.

In the company's latest annual report John Gurney, the chairman, warns that despite progress in resource exploitation the income generated by Moonstar was unlikely to exceed exploration expenditure in the short to medium term.

He stresses that the main operational thrust will continue to be exploration and development. "For the present, we should be regarded as an exploration company with mining aspirations rather than a mining company expanding reserves."

This kind of admission is likely to be greeted by a chorus of 'I told you so" from more than a handful of (mostly unqualified) observers who contend that Benco's mining aspirations were too ambitious.

Shareholders might also be concerned that existing and future exploration and development will necessitate more funds than the Moonstar could generate, even at full production. In addition a dedicated sampling vessel might also be on the top of the shopping list.

But are things looking as dark as the current share price suggests? Gensec, which took a 10 percent stake in Benco recently, obviously thinks not. The issue of 8 15 million shares to Gensec raised R25 million, which will go a long way to meet immediate funding requirements for exploration and sampling.

Other institutional shareholders, like Old Mutual with almost 23 percent and Metlife with 9 percent, look anything but panicky.

Gurney argues that this is the right time to be establishing a sound base with sufficient potential to attract the large amounts of capital that developing a marine mining company requires. In this regard it is important to note that Benco, unlike other southern African gem miners, has not opted for a listing on a Canadian bourse yet.

Although the Bre-X scam has dented North American sentiment for smaller mining concerns, Benco would no doubt still attract enough interest to warrant such a floatation. Presumably, this is what Gurney refers to when he says innovative ways of raising the necessary risk capital are under investigation.

As regards efforts to establish a sound operating base, Gurney notes that Benco has applications pending for prospecting leases in Namibia and is negotiating to acquire interests in prospecting and mining leases in South Africa and Angola.

There are also big hopes for mining leases 5(b) and 6(c), where exploration is being jointly undertaken with Ocean Diamond Mining (ODM) through Benco's minority shareholding in Diamond Fields International.

Gurney believes that 5(b), which requires detailed sampling, has the potential to deliver larger diamonds than any other Benco concession. "Reconnaissance sampling by divers in 5(b) has recovered individual stones larger than 10 carats, an average size in excess of 0,5 carats per stone and an average estimated value greater than $350 a carat."

Deepwater area (6c) also justified further sampling on the basis of the low grade resource of 720 000 carats of small diamonds, he added.

A recent visit to the Moonstar — now operating again in concession 2(b) — provided more clarity on mining activity, which according to executives is running to plan. The company is mining "test" trenches in 2(b), and these encouragingly have shown some lucrative strikes.

The exploratory mining phase is also giving the crew a chance to test a new and improved mooring system, which was adapted while the mining vessel was drydocked in East London. This should allow the Moonstar to maintain its mining position in severe weather conditions.

Improvements to the Moonstar's mining head, which rips up the sea bed in its search for gems, are also under scrutiny.

At a glance, Benco's concessions appear gem rich.

On board, handfuls of diamonds are sorted from the sludge ground out by milling barrels from tons of rocks, shells and sedimentary rock. According to onboard experts, the quality of white and sometimes yellow diamonds is high. One can (rather simplistically) assume that if production hitches can be ironed out this financial year then the 12 month period to end May 1999 can (and must) be Benco's year of delivery.

ANALYSIS

Nicky relishes the challenge of heading huge 'family business'

BD 8/10/97 (216)

Diamonds, De Beers and the Oppenheimers are inextricably linked, writes **Kenneth Gooding**

FOR 100 years, De Beers has dominated the world's diamond business. In the past 68 years, the SA group has had only three chairmen; two of them were Oppenheimers.

Now another Oppenheimer is about to move into the chairmanship to reinforce the family connection in what many still see as a family company. Nicky Oppenheimer, 52, takes over at the end of this year.

Nicky's grandfather, Sir Ernest, was chairman from 1929 until his death in 1957 and was succeeded by his son, Nicky's father Harry, who retired in 1982. The Oppenheimers accumulated a vast fortune from gold and platinum, as well as diamonds. Sir Ernest founded the Anglo American Corporation in 1917 and he and Harry built it into SA's biggest corporation.

Anglo is indivisible from De Beers. Each is, in effect, the leading shareholder in the other, making them impregnable to corporate raiders.

The Oppenheimers wield their extraordinary influence from a small shareholding: about 8% of Anglo. However, they always carefully select boards of directors loyal to the family.

In these circumstances, it is not surprising that Nicky Oppenheimer's promotion should have revived those myths which have plagued him for years. It is widely believed he is reluctantly taking a role in the group out of loyalty to his father, now 88, and that he is not up to the job of running a big corporation.

He rejects the first suggestion. "I absolutely relish the challenge," he says with a broad grin.

De Beers controls the global rough, or uncut, diamond business through its London-based Central Selling Organisation, which has exclusive marketing contracts with most of the world's important gem diamond producers. But there have been several developments in the past year:

□ The Argyle mine in Australia, in volume terms the world's biggest producer, has quit the CSO,

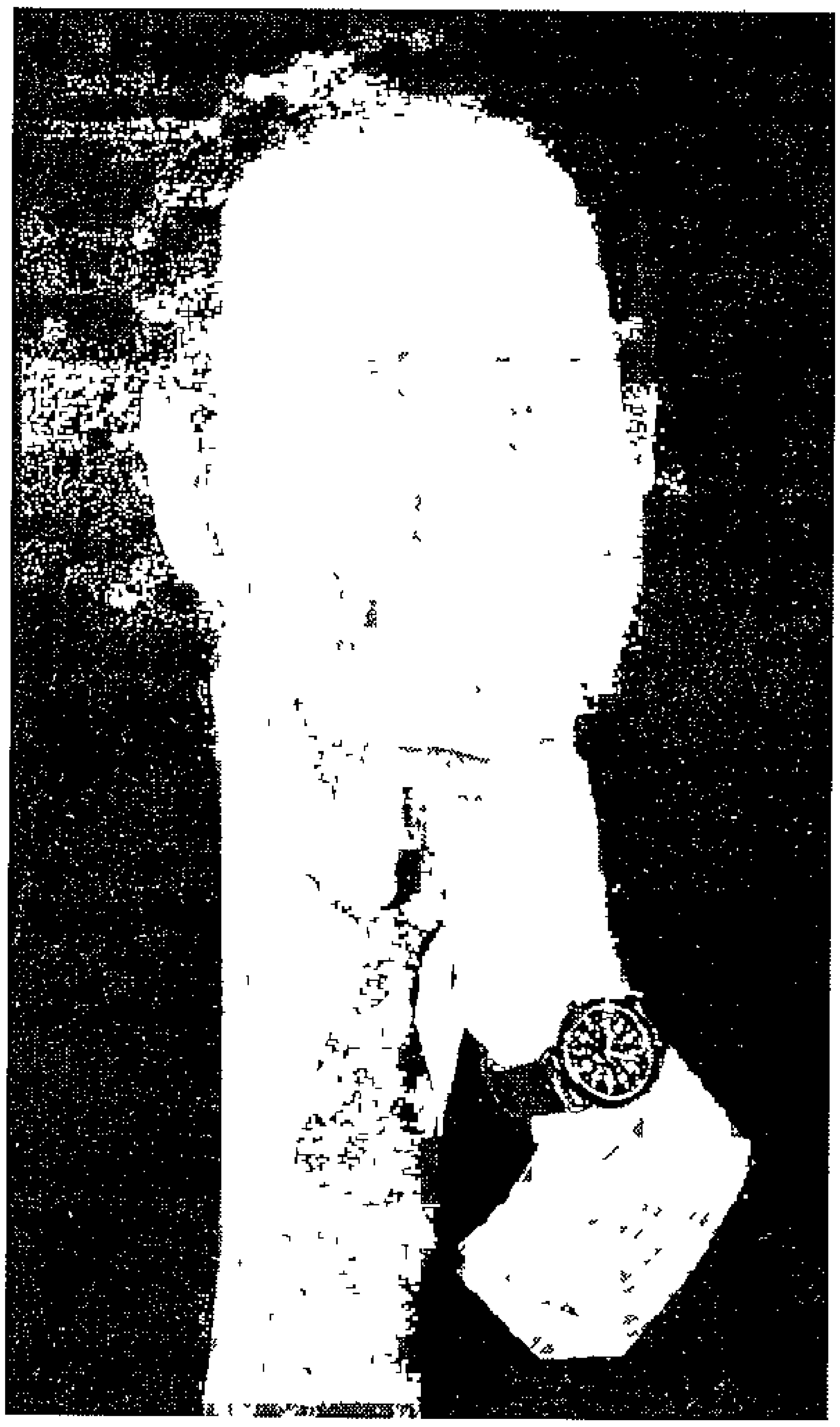
□ The CSO has severed formal links with Russia, another big producer,

□ Two potential rivals — BHP, Australia's biggest company, and Rio Tinto, the largest mining group in the world — will soon start diamond mining in Canada.

As for the suggestion that he is not up to the job, Oppenheimer points out that the directors of a big public company — De Beers has a market value of about $13bn — would be unlikely to invite him to take such an exposed role if that was the case.

He grew up in the diamond business, and as chairman since 1985 he has helped steer the CSO through some turbulent times. He is no pushover when negotiating for the CSO. When negotiations with Russia dragged on, delayed by bureaucracy and politics, De Beers continued for a year to buy Russian diamonds under the terms of a previous contract. But Oppenheimer ended the agreement when he felt the Russians were not respecting the old contract.

When the Argyle mine quit the CSO, saying it could do better on its own, De Beers was quick to respond. As a result prices of small diamonds — the type that accounts for most of Argyle's output and are bought mainly by Indian diamond cutters — fell steeply.



OPPENHEIMER

Yet one of the CSO's main tasks is to ensure that rough diamond prices do not fall sharply but remain relatively stable. It does so by operating a buffer stock, financing a stockpile when the market is oversupplied with certain types of diamonds, and releasing them when demand builds up again.

Oppenheimer insists the CSO could not adopt its traditional stance and hold prices steady, thereby allowing Argyle to eat into its share of the "Indian" market. "That would have been commercial nonsense."

He suggests the industry wants the CSO to continue smoothing out the peaks and troughs in diamond demand, but too many producers do not want to pay their full dues to the marketing "club". He is keen to bring Argyle back to the CSO, and wants to sign a new contract with Russia — but not at any price.

Contacts have also been made with the new diamond producers, BHP and Rio Tinto, but bringing them into the CSO's fold might prove tricky. Both groups have substantial operations in the US, where the antitrust authorities take a dim view of what they see as the De Beers' diamond cartel. This prevents De Beers having a physical presence in the world's biggest diamond retailing market.

Even if the antitrust complications can be overcome, some analysts suggest BHP and Rio will want a bigger say in CSO strategy and representation on the board before they sign up. Oppenheimer opposes this, arguing it would convert the CSO into a producers' cartel and, he insists, "cartels do not work — look at Opec".

It is up to the CSO to convince producers that its "single channel" system, where it is responsible for marketing most of the world's gem diamonds, can do a better job than the producers. "In general terms the diamond business is looking forward to a prosperous future," as more people are becoming rich enough to buy diamonds, Oppenheimer insists.

He dismisses the widely held idea that there will be shortages of gem diamonds at the beginning of the next century. Instead, the CSO will ensure it is business as usual, using price increases and encouraging increased output to ensure the market remains close to balance. — Financial Times.

De Beers drills again for Angolan diamonds

ET(BE) 10/10/97 (21b)

LESLEY WROUGHTON

Johannesburg — De Beers Consolidated Mines, the diamond company, has started drilling for kimberlite diamonds on one of its three concessions in Angola, a senior company official said yesterday.

This is the first drilling De Beers has done for diamonds in Angola since the country gained its independence from Portugal in 1975 After months of prospecting in the northeastern Lunda Norte province, one of Angola's richest diamond regions, the diamond company has sunk a core drill in the southeastern corner of its concession above Saurimo town

"We began drilling a few weeks ago north of Saurimo to see if there are kimberlites," said Jim McLuskie, De Beers' representative of the board for Angola

But drilling could last several months before there were any results De Beers has two other Angolan concessions, one at Mavinga town in the southern Cuango Cubango province and the other at Quela off the diamond-rich Cuango River valley in the north Those concessions are untouched and awaiting progress in a peace plan between the MPLA-led government and the former rebel Unita movement

These two areas are mostly controlled by the former rebels who agreed in a 1994 peace treaty to end two decades of civil war and to hand over territory under their control to the government.

Many foreign mining groups, granted diamond concessions by Endiama, the government's diamond company, in Unita areas have refused to occupy their concessions until the land is in the hands of the state.

The government's share of diamonds is vastly lower than Unita's take of the gems — at between $300 million and $600 million annually

Unita, which is officially part of an Angolan unity government, has slowly started to release some of the smaller towns under its control, but is under pressure from a United Nations sanctions threat to speed up the process

But Unita hardliners, including leader Jonas Savimbi, have refused to participate directly in the new government

Unita recently handed over the small town of Cuango in diamond-rich territory in Lunda Norte

The transfer of Cuango town indicated that an agreement, discussed since July last year, had been made between the two factions on the sharing of diamond land — Reuter operating profits over the past two years Investec Securities director William Bowler says AMM has reached a stage where an injection of equity capital is needed to position it for growth into the next century

The company is confident that without this interest burden, profits will gush down to the bottom line Chairman Ahmed-Sadek Vahed predicts attributable profit growth in the year to February 1998 of 47%

He says the effect of lower tariffs on imports will be offset by the decrease in duties on inputs and hopefully duty-free access into the US — which is still under negotiation AMM should benefit from stronger demand domestically, better penetration of export markets, government tender work and margin improvements

Investec Securities estimates clothing industry output per worker in SA at R49 600, compared to Moolla's average of R48 200, which suggests there is significant room for productivity improvement

The R70m cash available after the listing will meet increased working capital needs for at least two years, unless there are acquisitions Only clothing-related acquisitions will be considered, such as a focused textile or clothing supplier or a targeted retail chain, provided there is no conflict with the group's customer base

Vahed says he hopes the listing will stimulate revived interest in the clothing and textile sector, which is already undergoing a re-rating

Moolla will bring something new to the JSE, as it is not directly comparable to any other stock

Partial competitor Seardel is involved in clothing, textile, electronics and toys, Rex Trueform is increasingly a retailer NAV of 183c and the earnings potential make AMM worth considering below 230c, or a 15% premium to the R2 issue price **Stuart Rutherford**

DE BEERS/CENTENARY (216)

It never rains but . . .

FM 10/10/97

Lots of things are going wrong for diamond sales, all at the same time

De Beers' share price, sent reeling in August by a worse-than-expected interim report, has been knocked further by falling diamond sales in southeast Asia The current R139 is 22% down on the R178 high hit immediately ahead of what the market thought would be excellent interim results

These were instead restrained by higher tax charges That brought the price off within a week to about R160 The further slide has been fuelled by gloomy economic news from southeast Asia

Japan and the "tiger" economies such as Taiwan, Malaysia and Indonesia account for about 40% of the world's retail diamond sales The Japanese market remains depressed Not only are the tiger economies cooling down, some — in particular Malaysia — have been hit by a weakening of their currencies against the US dollar

Ogilvie Thompson facing up to dealers' unhappiness

The result is a double whammy on sales of diamond jewellery They are luxury items dependent on personal disposable income, which is being reduced, and they have become more expensive for Asian buyers as they are priced in dollars

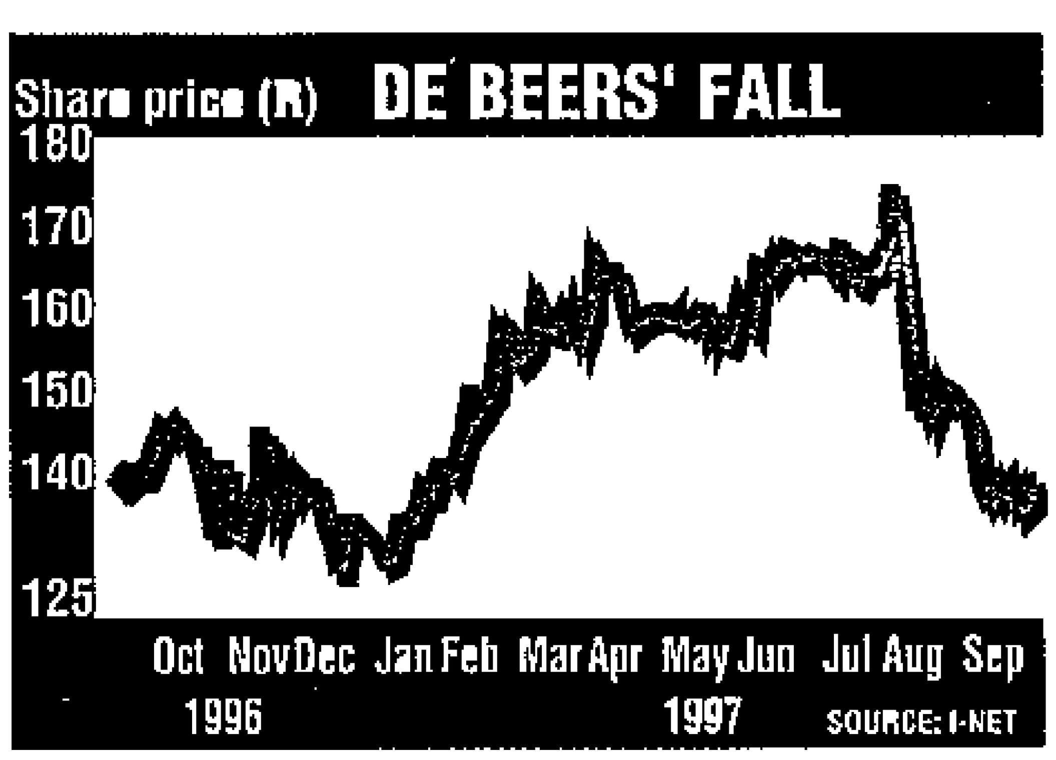
That's not the end of it The row which has simmered for years between De Beers and the diamond trade — cutters, polishers and dealers — has flared up again because of the tough times in southeast Asia

At September-end members of the World Federation of Diamond Bourses at a meeting in Singapore passed a resolution complaining De Beers' marketing policy threatened the viability of their business through unacceptably low profit margins

This backlash may have influenced changes at the top of De Beers, where Nicky Oppenheimer takes over as chairman from Julian Ogilvie Thompson in January

Outspoken diamantaire Martin Rapaport — president of Rapaport Corp, which publishes an authoritative newsletter and runs an Internet website giving latest diamond prices — launched a scathing attack on De Beers at last year's SMK Securities diamond conference in Johannesburg

He said the spirit of leadership apparent when Harry Oppenheimer was chairman was no longer there and accused De Beers of causing huge disruptions to the trade



The crunch in southeast Asia triggered the latest outburst Dealers can survive on narrow profit margins in a growing market but not if sales volumes drop

O'Flaherty Sundelson analyst Des Mayers estimates Central Selling Organisation (CSO) sales could be down US$150m in the second half, which would peg total sales for 1997 at last year's $4,8bn

De Beers does not provide statistics on its "sights" where it sells rough diamonds to the trade but estimates are the September sight was about $350m

"That's the lowest in about two years Manufacturers and dealers are trying to clear stocks, not buying," says SMK Securities analyst Hilton Ashton

CSO spokesperson Judith Annakie says volumes were cut at the last three sights in response to the wishes of the trade "There are still two sights to go so it's not possible to estimate final rough diamond sales for the second six months of 1997 "

She adds De Beers has taken notice of the resolution passed by the World Federation of Diamond Bourses The issues raised will be discussed by CSO executives in their traditional "end of year" visits to clients in the various cutting centres

For investors the question is when De Beers is worth buying Ashton reckons the share could drop as low as R110-R120, depending on how long Japan and the southeast Asian markets take to recover

Mayers reckons the share has moved into a trading range of R130-R150 and a case can be made for buying at about R130, based on non-diamond interests "At R139, market cap is about $11,2bn Non-diamond interests amount to $7,8bn, meaning the diamond interests are valued at $3,4bn That's covered by diamond stocks which sit in the balance sheet at $4,1bn "

What could give the share a fillip is the long awaited signing of the renewed marketing deal with the Russians which Annakie says is expected sometime in the week from October 20 **Brendan Ryan**

ALPHA

FM 10|10|97

Rolling out the grey carpet

(1997)

SA companies are all looking north, but seeing totally different things

Alpha announced its first acquisition outside SA last week, in the form of a 60% stake in Tanzania's largest cement producer, Tanga Cement

The purchase is one of only a handful of deals struck in Africa by SA cement makers, the most recent of which was Blue Circle's purchase last year of 49,9% of African Portland Cement, Namibia

For Alpha, the stake, bought from its controlling shareholder and the world's largest cement producer, Holderbank, is particularly significant

Alpha financial director Trevor Wagner says it gives the company access to an infant cement market and makes it less dependent on the SA market, where margins have been squeezed since the break-up of the cartel Cement consumption per capita in Tanzania is 26 kg/year, which compares to 200 kg in SA

Alpha says it is investigating opportunities in other African countries south of the equator as part of its geographical expansion plans, which accord with those of Holderbank "We know where we want to be, but the speed with which we move depends on when governments privatise, as in many cases cement is owned by government"

But Wagner's bullishness is not echoed by either Carl Grim, CE of Murray & Roberts Materials (housing Blue Circle Cement), or PPC group MD John Gomersall Grim cautions that many of the cement companies in Africa already have international equity partners with pre-emptive rights to increase their stakes

"There are not a lot of gaps in southern Africa," says Grim "You really have to get to the Central African Republic before you start finding opportunities" Gomersall says he doesn't know if there are any opportunities left on the continent

Grim says starting up operations within these countries is also difficult, since current capacity is more than capable of coping with demand He suggests it may be better to fix what is already there

Alpha, meanwhile, says the Tanga acquisition should have an immediate, but small impact on EPS in the year to December 1997, and that greater contributions should come in the medium to long term The Tanzanian company stands to benefit from improved efficiencies, a possible fuel price drop and increased throughput Production stands at 350 000 t/year, and is expected to reach full capacity of 500 000 t in two to three years

Wagner says the group will decide by early next year whether to expand into the Western Cape, where PPC has a monopoly, or to expand its other domestic facilities The planned R720m plant in the Western Cape would push Alpha close to its self-imposed gearing limit of 67%, but this is expected to fall quickly

With no financial information available on the acquisition, it is impossible to evaluate the impact on the company But it is encouraging to see Alpha finding new growth opportunities and benefiting from its link to Holderbank **Stuart Rutherford**

FRASER ALEXANDER

Going down to the core

Growth may seem limited, but management doesn't think so

Latest results from Fraser Alexander signal a watershed for this group which has now completed the restructuring started last January, when new CE Dennis McIntosh took over

The group has been cut back to its core businesses with the sale of the coal mining interests and resolution of the bitter fight in the waste disposal market with Enviroserv Frasers merged its Waste-Tech division with Enviroserv, in a deal funded with equity It is now unbundling this business, enabling its shareholders to hold shares in Enviroserv directly

Frasers financial director Les Maxwell says the reasons are the group policy not to hold minority stakes in operations it does not manage, and a desire to provide a bonus to shareholders

He hopes the cleaner structure and clearer future for the group will result in a rerating of the share

Frasers comes out with a rock-solid balance sheet It is ungeared and has cash in the bank, a year ago it had R67,6m debt

The group is now focused on three core divisions bulk materials handling, concrete products and mining services, including the tailings dam management operations

If there's a worry it concerns the apparently limited growth potential Frasers has acquired almost all the available tailings disposal business in the SA mining industry and the concrete products operation business depends on RDP business

One reason for the decision to unbundle the Enviroserv shares rather than sell them and retain the cash was that management could see no obvious use for the cash

Marketing director Kevin Eborall sees growth in all three of the divisions On the bulk handling side, Frasers wants to acquire the materials handling contract for the proposed second coal terminal at Richards Bay, KwaZulu-Natal

The project is being run by Group Five and Anker Kolen, which bought the Elandsfontein coal mine from Frasers Frasers has also secured a contract to provide materials handling services to Samancor's Meyerton, Vereeniging, plant which Eborall views as a new, strategic development

Frasers has moved into materials handling in Zimbabwe by buying Field Engineering, management has been surprised by new business it is generating Mining services business is booming in Zimbabwe

On the concrete products side, Eborall says the long-awaited RDP delivery process may be gaining momentum He is optimistic about major projects such as the Maputo corridor development and work on new toll roads

Frasers has also formed a joint venture in Zambia with a company that produces concrete railway sleepers, and wants to expand there and in neighbouring countries

Headline EPS for the year to end-June rose only 5% (*Fox* October 3) But Maxwell says Frasers' results for the past five years show a compound annual growth rate of 20% in both before and after tax earnings He expects more this year **Brendan Ryan**

TA BANK

Invading the market and JSE

TA Bank wants a listing to launch an assault into southern Africa

TA Bank, which opened its doors in SA just four months ago, is on the prowl for a listed vehicle to enable it to speed up its pen-

Decision this week on privatisation of state mine

(216) BD 13/10/97

Renee Grawitzky

THE interministerial cabinet committee is expected to take a decision this week on how Alexkor, a state-owned diamond mine in the Northern Cape, is to be privatised.

Industry sources indicated that 60% of the mine could be sold to a potential strategic equity partner.

The sources said it was unlikely government would agree to proposals tabled by Alexkor's restructuring and transformation committee which called for a 30% stake given to the community, 20% to labour, 15% to the national empowerment fund and 35% to an equity partner.

Government was likely to agree to the sale of up to 60% of the mine to a potential equity partner, he said. Government would also have to decide if the mine would be split into onshore and offshore operations and sold off separately.

The future of the mine's other activities such as farming would also have to be considered.

At the same time a number of consortia are being formed to bid for the mine while established companies such as De Beers and Trans Hex are potential buyers.

However, industry sources said there was some resistance in government for De Beers to buy the mine, even though it had the expertise to turn the mine around.

The interministerial cabinet committee meets on Thursday to discuss recommendations put forward by the sectoral task team and considered by the oversight committee which met last week.

Public enterprises and the mineral and energy affairs department said they were not in a position to comment on the outcome of the deliberations.

The model proposed by Alexkor's restructuring committee was motivated by the fact that the mining industry played a crucial role in the Namaqualand economy and the lifespan of all the mines was limited.

The model was to ensure the mine and other activities could act as a vehicle for future sustainable regional development.

A report conducted last year by the Mineral and Energy Policy Centre highlighted the importance of the mine in the regional economy. The committee proposed that 30% of the mine be given to the community because 30% of the mine's post-tax profits revert to the community through the Alexkor Trust, and secondly, there are a number of land claims.

The report said "it was questionable whether a private owner could sustain the development and corporate social investment programmes".

Board wants broader gem opportunities

(216)

Linda Ensor

BD 15/10/97

CAPE TOWN — The Diamond Board was committed to changing the patterns of ownership in the industry so that a larger proportion of the population could benefit from mineral rights, CEO Victor Sibiya said yesterday.

Addressing Parliament's mineral and energy affairs portfolio committee, he said the board was also committed to developing a local manufacturing industry for export and to opening channels for diamond trade with southern Africa outside of the De Beers channel

Sibiya welcomed the creation of the diamond bourse, saying this would enhance the flow of diamonds into the country and foster joint ventures with African entrepreneurs

Education was needed to address the low survival rate among small and medium businesses in the industry. They could play an important role, as they did in Zambia.

Sibiya stressed the need for government support if SA was to develop a strong downstream jewellery beneficiation sector.

Boost for local beneficiation of diamonds and gold

CT (BE) 16/10/97 (216)

Lynda Loxton

Cape Town — The South African Diamond Board had joined forces with the private sector, including world diamond mining leader De Beers, to promote the increased local beneficiation of minerals, particularly diamonds, the parliamentary minerals and energy committee heard yesterday

Various programmes, including the training of locals at the Harry Oppenheimer Training School in Johannesburg and soft loans, are being considered in a bid to involve more South Africans in the beneficiation of minerals such as gold, platinum and diamonds

The locally trained cutters and polishers will use equipment made locally by companies such as Laser Optronic Technologies (Laser Optech) in Randburg, which is exporting equipment to India, one of the world's largest polished diamond producers

"We as a board are studying various impediments — they may be macroeconomic, expertise and things like that — and trying to see how we can manage this so that we can improve beneficiation," Victor Sibiya, Diamond Board chief executive officer, said this week.

Gem hauls likely to add shine to Ocean's results

(216) CT (BR) 22/10/97

Marc Hasenfuss

Cape Editor

Cape Town — Ocean Diamond Mining Holdings, which operates in Namibian waters, looks set for a strong interim showing as gem hauls in the six months to September 30 comfortably topped planned production figures.

Andre Louw, the managing director of Ocean Diamond Mining Holdings, said yesterday the company had extended its consistent production record by generating interim diamond production of 31 295 carats

This figure is 20 percent ahead of the planned production figures of 26 000 carats and suggests that the annual production target of 52 000 carats can be exceeded

News of better-than-expected production figures saw Ocean tick up 20c to R7,10 on the JSE yesterday when 72 500 shares changed hands.

But a market watcher warned that the timing of sales precluded gauging a possible turnover figure from the interim production figures He did, however, pencil in bottom line profit of close to R8 million for the six months to September 30

Louw attributed the strong production figures to encouraging recoveries from certain areas by the Namibian Gem, the company's sole mining vessel He also said Ocean's main deep-water operations were not hampered by weather conditions

Louw said most of the interim production was retrieved from the Basin Deposit in the Halifax Island area, which contained high-quality stones with an average size of 0,45 carats

He said earlier this year these stones fetched more than $200 a carat

"Although the carat price has weakened somewhat during the European summer months, we are still optimistic that Ocean will, on average, achieve slightly better diamond prices than those of last year."

Louw predicted similar production levels during the second half, which suggested that last year's production figures of 57 000 carats would at least be matched

□ Business Watch

At least $550m will flow through CSO

De Beers strikes deal with Russia

ET (BR) 22/10/97 (216)

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — De Beers, the diamond conglomerate, yesterday struck a long-awaited new two-year marketing agreement with Russia's main producer Almazy Rossii-Sakha (ARS) on the export and sale of rough diamonds through De Beers' Central Selling Organisation (CSO)

The deal was signed in Moscow yesterday by Nicky Oppenheimer, the De Beers chairman-elect, and his Russian counterpart, Vladimir Shtyrov, the president of ARS The signing ended more than two years of negotiation and uncertainty over whether Russia would rejoin the selling organisation

The CSO controls a large part of the international diamond trade and provides stability in the sector by buying up excess production and regulating the supply of the stones, as well as stimulating demand

Recently, both Russian and Australian diamonds have been sold independently of the selling organisation after the expiry of the previous agreement in December 1995

Oppenheimer said he was delighted that Russia and De Beers had been able to re-establish their historic relationship

"Of course, the world diamond industry will be watching extremely carefully to see how the relationship will work from now on," he said

Tim Capon, a director of De Beers, said in London yesterday that the agreement confirmed the details of the memorandum of understanding that was agreed by the two parties 18 months ago

He said the agreement was mainly delayed because of an internal Russian debate in which De Beers was a spectator.

He stressed that a minimum of $550 million of current Russian yearly production would now flow through the global selling organisation, but that the deal also allowed for the export of diamonds from current production that would be uneconomical to polish in Russia

Also, Russia would be allowed to sell diamonds from its current stockpile through the CSO

The maximum amount of Russian sales was set at 26 percent of the organisation's sales, worth about $1 billion

"The agreement has the endorsement and support of both the president and the government of the Russian Federation," De Beers said

"This deal will increase our intake of diamonds, but it is also positive in that it will stem the (recent) flow of diamonds from the Russian stockpile, which has not helped sentiment in the industry," Capon said.

Although the agreement concludes at the end of December next year, both parties said that "depending on the satisfactory operation of the agreement, (both) have formally expressed their intention to extend it for a further period"

De Beers said the agreement also takes into account the needs of the developing Russian manufacturing industry

The De Beers share ended unchanged at R145 on the JSE yesterday

South Africa and Russia seal gems agreement

(216)

Sowetan 22/10/97

By Isaac Moledi

SOUTH Africa and Russia – two of the biggest diamond producers – have signed a new agreement worth about R2,749 billion, establishing the local company De Beers as the sole buyer of Russian gems

A joint communique issued yesterday said the new deal, signed by De Beers vice-president Nicholas Oppenheimer and Vyacheslav Shtyrov, president of Russia's Almazy Rossii-Sakha (ARS), ended months of friction over Russian diamond exports

The new agreement, due to run until the end of 1998, formally establishes De Beers as the sole purchaser of the bulk of ARS diamonds, with a minimum purchase limit of R2,749 billion's worth annually

The previous agreement, signed in 1990 between De Beers and the former Soviet Union, expired two years ago Since then Russia, the world's second biggest producer of diamonds after De Beers, has been pushing to sell more of its diamonds on the open market

ARS, which mined uncut diamonds worth billions of rands last year, is the sole authorised Russian uncut diamond exporter

It accounts for 95 percent of the country's diamond production.

Welcoming the agreement, the chairman-elect of De Beers Oppenheimer said that he was delighted that the parties had been able to re-establish their historic relationship

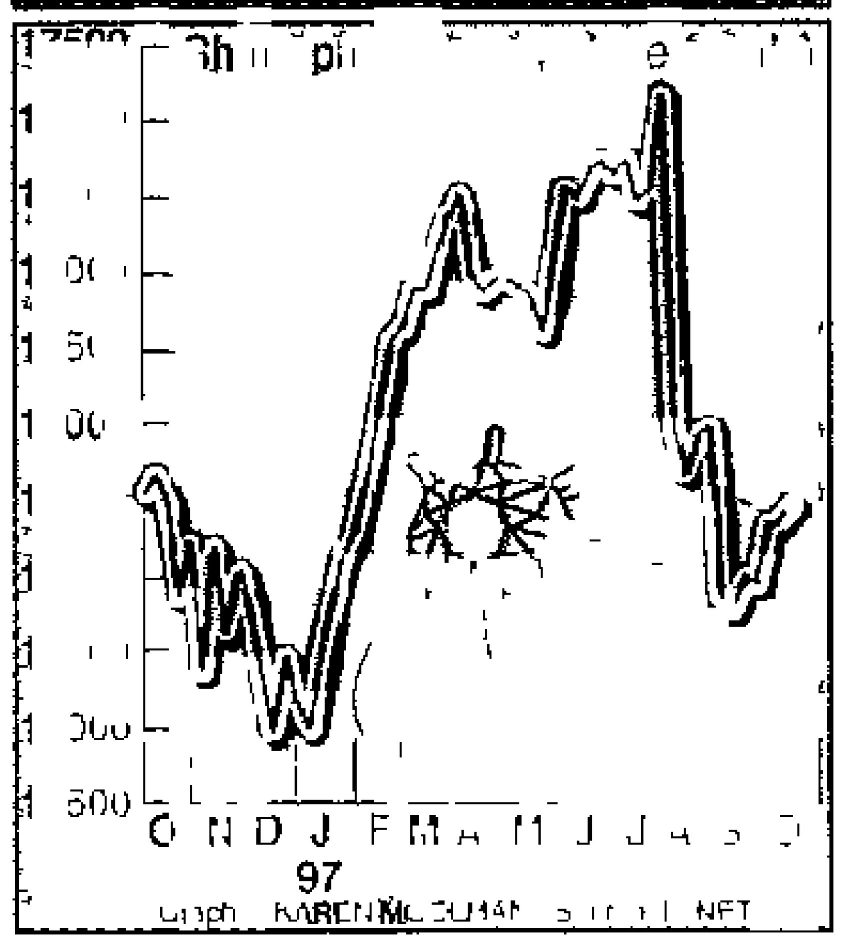
"Of course, the world diamond industry will be watching extremely carefully to see how the relationship will work from now on "

The agreement "is the start of the process that we will have to continue until the end of 1998 and hopefully, if the parties perform as expected in the future, the agreement recommits Russia to the principle of single-channel marketing" through De Beers' Central Selling Organisation (CSO), Oppenheimer told reporters

"The agreement has been made on an even-handed basis and to the benefit of both parties," he said at a news conference after the signing

De Beers gives ground in diamond pact with Russia

(216) BD 22|10|97



Neil Behrmann

THE De Beers diamond cartel finally signed a diamond trade pact with Russia yesterday, but it had to make some major concessions

The net effect is that Russian sales to De Beers will fall substantially, company officials concede.

In terms of the trade accord which commences on December 1 and expires at the end of 1998, De Beers will buy a minimum of $522,5m from Russia's diamond mine, Almazy Rossi-Sakha (ARS), during the 13 month period. The remaining 62% of the diamonds mined each year by ARS, Russia's state-owned producer and exporter of rough diamonds, will go to domestic diamond cutters

ARS mined $1,38bn in diamonds in 1996, Vyacheslav Shtyrov, the president of ARS said

Since the industry is unlikely to want all the diamonds available for export, De Beers will in practice receive between $525,5m and $1,1bn, estimated Tim Capon, a director of De Beers

This, he conceded, was far lower than the $1,1bn annual purchase of diamonds which the cartel used to receive in the previous five year agreement which expired in February 1996. Then De Beers could buy 95% of Russia's annual diamond output.

Now it receives 95% or $525,5m of a minimum of $550m "run of mine", normal quality diamonds.

The rest of the gems, both from ARS and the Russian treasury stockpile, will be purchased by Moscow diamond cutters. 20% of the rough diamonds that they do not polish will be exported and the remainder will go to De Beers.

"The deal covers a short period so that both parties can see how it works," Capon said

Despite what diamond dealers perceive to be a favourable deal for the Russians and a climb down by the powerful cartel which controls about 70% of the global rough diamond market, Capon believes that the accord will help bring back stability and confidence

In recent years the market has been flooded by independent Russian sales he says.

There will now be more balance in the market which is suffering from a sharp decline in orders from Japan and Southeast Asia

"But nothing has changed" from the conditions which occurred since the old accord expired, contends Jacques Zucker, MD of Beldiamix BVBA, the Antwerp-based diamond dealers.

"Effectively, the Russians will still get the prime diamonds although De Beers will receive better qualities"

Marcel Pruwer, an Antwerp diamond dealer, believes that the deal will boost confidence and will help the Russians, who need an agreement to borrow money from banks

"The Russian mines desperately need funds to repair and develop the mines Now that money will be available."

The previous agreement, signed in 1990 between De Beers and the former Soviet Union, expired in December 1995. Since then Russia, the world's second-biggest producer of diamonds after De Beers itself, has been pushing to sell more of its diamonds on the open market

Angolan bandits rob De Beers

(2) (216)
MG 24-30/10/97

Chris Gordon

De Beers is holding an internal inquiry following the shooting and robbery of the head of its Angola operations, Ken Kempson, near Lucapa in Lunda Norte The attack left Kempson badly injured with five bullet wounds, and minus a reported $1,5-million (R7-million) in cash he was to deliver to the De Beers diamond-buying office in Lucapa.

It was not a random robbery. The attackers knew Kempson was carrying the money and laid an ambush for him, according to a source who arrived at the airport half an hour before he did

The source saw three Angolans dressed as policemen waiting in the middle of the road beyond the army checkpoints — waiting for Kempson, he believes. It is now widely believed in Angolan diamond circles that the fact that Kempson was carrying cash was leaked from the De Beers Luanda office.

This is borne out by the way Kempson was targeted by the robbers, who attacked only the jeep he was travelling in. A second jeep escaped. According to Andy Lamont, of De Beers corporate communications in London, the director of De Beers Holdings, Angola did not normally act as a courier for the movement of cash.

Industry sources say the company preferred not to draw attention to itself by heavy security when it moved cash. Asked whether De Beers thought its security arrangements in Angola were good enough, Lamont said De Beers was as rigorous as possible under the circumstances, adding "but those circumstances have changed quite dramatically"

The Lucapa region has a long reputation for being "bandit country"even though there is a major army base securing the town Valuable diamonds come from Lucapa, and armed bands of illicit diggers have made the region unsafe

Military action in May and June increased general security in the region. This was evidently not enough to protect Kempson, who has been in Angola for 10 years and knows the country well.

Visitors used to travel to the town in armed convoys There are guards posted every five kilometres between Lucapa and the mining regions SML, the mining company based there, earlier lost 21 men in in a rocket attack on the mine

This attack raises more major questions for De Beers security in Angola. It is not the first time it has been robbed — a very large amount of cash was stolen last year from the buying office in Cafunfo in the Cuango Valley

Lamont told the *Mail & Guardian* that De Beers will be reviewing its security procedures, but would not release the results of the inquiry De Beers currently employs the British security company Defence Systems Limited, and has a Luanda-based head of security

De Beers has closed all its upstation buying offices in Angola as a result of the attack on Kempson and will also decide on their fate during its inquiry.

Kempson is now out of hospital and recovering. The unanswered question is how the attackers knew he was carrying the cash. The answer to that question will reveal who really carried out the attack.

COMPANIES

De Beers is optimistic about single channel marketing

(216) BD 27/10/97

The agreement with Russia dispels suggestions that single channel marketing is out of date, writes David McKay

IN THE 18 months it has taken De Beers to convert its preliminary agreement with Russia into a definitive pact, the group has had to fend off suggestions that single channel marketing, which it manages through marketing arm the Central Selling Organisation (CSO), was in decline

A number of other developments supported this view, primarily, the defection of Australian diamond miner Argyle from the CSO last year Argyle was disenchanted by the cut in prices of lower quality diamonds, which it produces, and the stockpiling of Argyle's output, in terms of its trade agreement with the CSO The jury is still out on whether Argyle did the sensible thing, as it is now caught in a price war with De Beers in the Indian market. Argyle has already shelved plans to go underground as uneconomic, suggesting that it is already feeling the heat of independent marketing Argyle's current surface reserves are expected to last to about 2002 Nonetheless, the CSO said it was unhappy not to count Argyle amongits ranks

Added to this, there is no certainty that output from the prospective Lac De Gras project in Canada's North Western Territories will be channelled through the CSO Strategically, this is an important project Lac de Gras is expected to provide 15%-20% of world diamond output by value five years after start up Securing output of this project would be a coup for the CSO

Lac de Gras' backers include Rio Tinto which has an investment in Argyle and Broken Hill Proprietary (BHP) Both have yet to sign agreements with the CSO, although CSO MD Gary Ralfe said recently preliminary meetings with BHP had taken place

The CSO has also had to contend with increasing instability in the diamond-producing market due to civil war in diamond-producing states Sierra Leone and Zaire On the retail side, sales have dropped in key market Japan, squeezing CSO margins

However, CSO chairman Anthony Oppenheimer is optimistic He said a "rapproachment" with Argyle could not be ruled out, while better trading in Japan would come.

Even the difficulty in pushing through a new trade agreement with the Russians was not related to Alrosa but from central government, he said. The implication is that Alrosa recognises the importance of the CSO's role in the world's diamond affairs

Apart from setting the world's diamond prices, diamond producers can be grateful for the CSO's promotion of polished gems The organisation pumps about $200m in 34 countries a year into promoting consumer interest in gems. It believes that unlike most commodities, diamonds, as a luxury item, need an extra push.

The CSO has played its part in continuing the misapprehension that diamonds are rare and therefore valuable. But diamonds are rare only because the CSO makes them so In essence, the CSO manipulates the market, holding on to certain quality diamonds at times, releasing them at others

Self-styled as a "shock absorber" for the diamond market, the CSO will go to extraordinary lengths to preserve its version of market stability A haemorrhage of illicit Angolan trading in 1992, for example, saw the CSO dispatch a team of buyers to buy up to two-thirds of total Angolan output, maintaining the CSO's floor price set in London

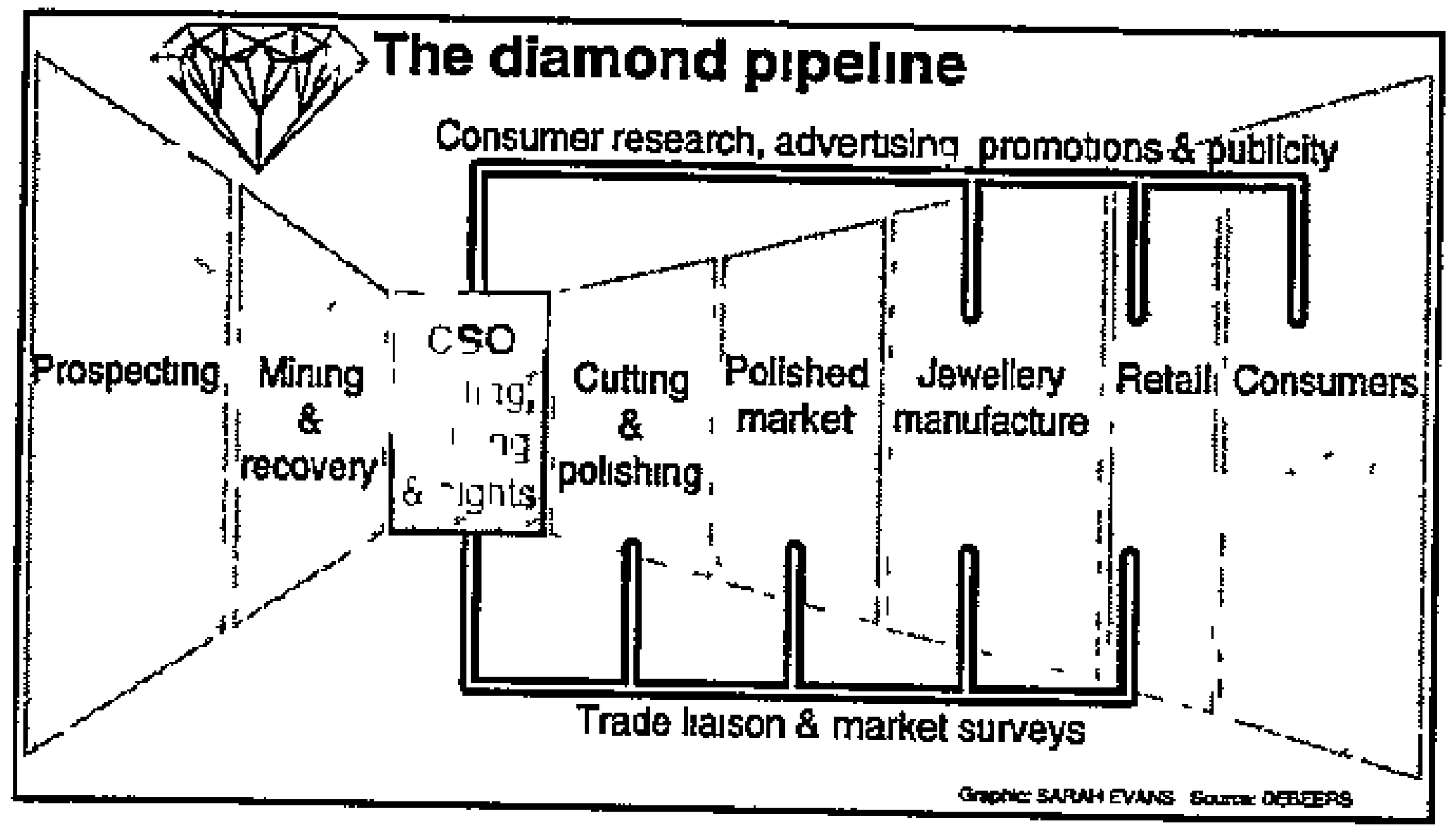
Through its association with De Beers' mines, the CSO receives about a third of world output by weight and 40% by value It also receives production from other major producers in Russia and Angola.

Against this background, the agreement with Russia was instrumental in maintaining the CSO's grip on the world market

On the surface, the trade agreement with Alrosa appears to be a success for both sides For De Beers, it makes clear that the CSO is still in control of the rough diamond market, with about 75-80% (by value) of rough stones now sold to the CSO

For the Russians, the deal will allow Alrosa to approach western banks for funding much-needed mine expansion and rehabilitation.

Analysts say the CSO has its eye on diamond production from North Western Territories The CSO could even be in the market to buy BHP's stake in North Western Territories output. If this can dovetail with a trade agreement for Rio Tinto's output from the province, then the CSO may well lock up more than half of world production by value, particularly if Argyle's stops producing before 2002



EXECUTIVE SUITE

By William Wells and Jack Lindstrom

Datatec results

ODM diversifies its Namibian operation to Angola

(216) CT (BR) 30/10/97

Marc Hasenfuss

Cape Town — Ocean Diamond Mining Holdings (ODM), the marine gem operation, has diversified its Namibian sea-based operations by clinching an exploration joint venture with Cimader Lda, the Angolan diamond concession company

The Angolan concession area, known as the Dala area, measures 25 500km² and is located in the Lunda Sul and Moxico provinces

Andre Louw, the managing director of ODM, said yesterday the company's share in the joint venture was 51 percent, without taking into consideration a possible participating share of Endiama, the Angolan government controlled diamond company

"ODM will be responsible for all the funding and conducting the exploration programmes, and will receive a management fee of 5 percent of revenue"

He said the first exploration phase would be for a three year period during which ODM would spend $1,5 million

Louw noted that ODM had already started to set up a separate division for the Angolan projects and hoped to complete the first phase of staff recruiting towards the end of the year to commence with a view to starting field work by the first quarter of next year

He stressed that ODM had carefully selected the Dala area on the merits of its long-term diamond potential

Although the Angolan civil war precluded diamond exploration in the area, Louw said the potentially diamond bearing Colonda formation was widespread in the region and several diamond bearing rivers had their origins in the central Dala area

"In addition to the excellent potential for alluvial diamond deposits in the substantial gravel terraces on the river banks and in the rivers themselves, the geological setting of the area is such that it also has the potential to host kimberlite pipes"

Private group may manage Alexkor mine

BD 10/11/97 (216)

Reneé Grawitzky

GOVERNMENT was considering bringing in a private mining company to manage Alexkor, its diamond mine in the Northern Cape, until the value of the mine was determined, public enterprises ministry spokesman Wandile Zote said at the weekend.

The sale of Alexkor had been put on hold while this was being considered.

Zote said a revised approach to the sale of the mine had been adopted following meetings between his minister Stella Sigcau, Mineral and Energy Minister Penuell Maduna and a sectoral task team

The revised strategy involved government holding a competitive tender for mining companies to bid for a management contract to run the mine for an undetermined period. At the end of this interim period, the company would have an option to buy Alexkor

Zote said preliminary contact with some local mining companies had indicated that this approach would attract interest

During the interim period government would retain ownership of the mine but would grant the community a small shareholding, with the size still to be determined.

This approach differs from the proposal by Alexkor's restructuring committee which called for the community to have a 30% stake, labour 20%, workers 15% and an equity partner 35%.

National Union of Mineworkers Alexkor branch chairman Lionel Philips said the union would support the new approach if government endorsed it. It was necessary first to determine the value of the mine

An industry source said Companies including Ocean Diamond Mining and Trans Hex had indicated interest but expressed concern that they had no access to information whether it be technical, structural or regarding a potential management contract. As a result, nobody knew Alexkor's value

A diamond analyst said the mining company which won the bid would have to implement an exploration programme, and would have to be compensated for this

An interministerial cabinet committee is expected to decide on the new approach by the end of the year.

Final decisions have yet to be taken on how the mine will finance exploration activities, the length of the interim period; the option price; the level of shareholding to be sold to an equity partner and whether the company will be split into offshore and onshore operations for the purpose of the management contract.

Zote said the state would continue to own the mineral rights in the interim period.

A report last year by the Mineral and Energy Policy Centre highlighted the importance of the mine in the regional economy It said it was "questionable whether a private owner could sustain the development and corporate social investment programmes" which were in place

COMPANIES *Deepwater miner confident of maintaining income growth for full year*

Quality gem hauls give Trans Hex a boost

CT (PM) 21/11/97 (216)

MARC HASENFUSS
CAPE EDITOR

QUALITY SHINES *Niel Hoogenhout, Trans Hex's managing director, shows off some of the company's high-quality diamond products that boosted the bottom line* PHOTO ANDREW BROWN

Cape Town — Trans Hex Group, the diamond mining and exploration company in the Rembrandt stable, pushed up net income by 18 percent to R32 million in the six months to September 30, mainly because of superior-quality gem hauls

Niel Hoogenhout, the managing director of Trans Hex, said yesterday that although the prices of smaller- and lower-quality diamonds remained under pressure, the market for the company's higher-quality Orange River diamonds was still buoyant

"It's these top quality diamonds, which make up the bulk of our R124 million interim turnover, that will be less affected by the downturn in diamond prices," Hoogenhout said

He said the half-year showing should be viewed against a weakening rand and higher dollar prices for diamonds during the comparative period last year

Hoogenhout said prices for Trans Hex's diamond production varied, but the better quality stones fetched between $500 to $600 a carat through the company's independent marketing channel in Antwerp

He said the diamond division achieved 97 percent of its budgeted carat production, with production at Baken and So Ver exceeding targets But he added that Reuning, Komaggas, Hondeklip Bay and the marine operations came in marginally under target

Hoogenhout expected the state of the rough diamond market to continue

The Trans Hex share price closed at R28, up from R27

☐ Business Watch, Page 2

Marine gem miner ODM on course

(216)

MARC HASENFUSS

CT (BR) 21/11/97

Cape Town — Ocean Diamond Mining Holdings (ODM), the marine gem producer, seems ready to chalk up full-year earnings of more than R17 million after a 33 percent gain in bottom-line profit to R8,8 million in the six months to September 30

Andre Louw, the managing director of ODM, said yesterday that interim diamond production topped 30 000 carats and production for the full year was expected to be similar to last year

Turnover rose 13 percent to R25 million but higher exploration expenditure cut into margins, restricting the gain in operating profit to 9 percent at R5,2 million Interest received of R3,7 million bolstered the bottom line

"Providing that diamond market conditions follow the same trend as last year, ODM's earnings for the second half should at least equal those of the first half," Louw said

Although prices for smaller diamonds had weakened in the second half of this year, Louw was confident the average diamond prices for the full year would be slightly better than last year's average of $188 a carat

He said ODM aimed to increase diamond production during the next financial year through better utilisation of its existing resources, new technology and different mining methods

Louw confirmed that the growing need to increase ODM's exploration programme in the deepwater areas had prompted moves to commission a new dedicated mining vessel

That would enable the company to use its sampling vessel, the Oceandia, as a mining vessel Its larger contribution to mining would help the Namibian Gem, ODM's mining vessel, to reach the planned increase in diamond production, he said

Louw said all current projects and developments would be funded out of the company's existing cash resources

ODM shows strong rise

(216)
BD 21/11/97

Samantha Sharpe

CAPE TOWN — Marine diamond mining and exploration company Ocean Diamond Mining reaped the benefits of improved operational efficiencies and a weaker rand to show a 33% increase in fully diluted earnings to 20,43c a share

Group MD André Louw said that while interest earnings had made a significant contribution to profit, increasing to R3,7m from R1,9m, the group's mining operations continued to show good results.

Turnover rose 13% to R25,1m in the period under review with six-month production at 31 295 carats and expected to remain at much the same level as last year for the full financial year.

"ODM is committed to increasing diamond production during the next financial year through better use of existing resources, supported by a combination of new technology and different mining methods

"Although a variety of factors influencing the diamond market in the latter half of 1997 have weakened the price for smaller diamonds, ODM remains optimistic that the . price for the full year will be better than last year's average of $188."

On exploration, Louw said two new diamond-bearing areas had been identified and were expected to host "significant quantities of mineable reserves"

DIAMOND BENEFICIATION

Laser beams can add a glow to export earnings

FM 28/11/97 (216)

SA exports the stones and the processing technology. There are plans to put the two together before they leave

Laser expert John Bond has come up with a bold plan which will help benefit SA's diamond and gold industries He proposes using frontier technology to establish downstream initiatives he believes could create hundreds of thousands of jobs and bring in billions in foreign exchange earnings

He argues that if his plan is implemented, SA can seize 10% of the world's diamond processing and jewellery markets within five years

Bond is head of the small award-winning company Laser Optronic Technologies He also chairs the Department of Trade & Industry's jewellery technology cluster which has been charged by government to increase the value of SA's diamonds and gold production

Laser Optech has spent R7,5m developing state-of-the-art laser technology for diamond-cutting and has 25 machines sold worldwide

This year, 18 of them, valued at R8,5m, were installed in the factory of one of India's largest diamond processing companies, KP Sangahvi

There are plans by the Indian company to install another 40 machines over the next few years

To bolster his argument for local beneficiation, Bond points out that only 6% of diamonds produced in SA are cut and polished here while, in countries like India and Japan, the technology used to maximise the stones' processing is South African

"Southern Africa has got 65% of the world's diamond resources What happens to those diamonds? Most of them are shipped to London to the Central Selling Organisation belonging to De Beers, which controls about 85% of the world diamond market

"Last year 130m carats were sold worldwide in the rough, for about US$7,6bn After polishing, these were sold to wholesalers for about $14bn So, by taking the diamonds through the process, $7bn has been added to the local value SA's contribution to the 130m carats is about 12% by value Therefore $1,6bn could be earned for SA by beneficiation "

At present, says Bond, "our technology is being exported to India giving it the competitive advantage "

Most of the smaller diamonds are polished in India which employs 93% of the world's diamond polishers They work mainly by hand, using traditional methods unchanged for centuries

"That way," says Bond, "it takes three hours to cut a one-carat stone The human eye and brain get tired and mistakes are made

"Our machines in India can do it in about six minutes And each machine processes about 7 600 carats/month. The new technology fixes the position of each stone's maximum diameter and maintains optimum quality They're then cut by a laser beam " Bond's plan is to establish factories in SA's areas of high unemployment and use soft loans from government to create an army of self-employed polishers

Last month he made a detailed presentation to the Parliamentary Minerals & Energy Affairs Committee, with the support of Victor Sibiya, chief executive officer of the SA Diamond Board

Bond has established a company, True South Natural, with three black partners, to launch his diamond project He's seeking R5m from independent partners to build the first facility and is talking to Alexcor, the State-owned diamond mine, as a source for rough diamonds

He hopes De Beers will come on board "It would be in everybody's interest, De Beers is a South African company," he says

Would De Beers support a massive diamond polishing industry in SA? "To think the opposite would be ludicrous," says a De Beers spokesman "There's nothing to stop it happening It's up to the entrepreneurs to get on and do it "

Would De Beers make its rough diamonds available? "It should make no difference at all," says the spokesman "They would buy the diamonds they can cut profitably, that's what we want to see But we want to see them cutting the diamonds, we don't want to see them exporting rough diamonds

"Bond's laser machine goes back a few years and it's progressed nicely It wasn't a goer in the beginning, but it's come along very well "

Jack Lundin

Diamond miner also attracts small bidders

Consortium eyes ailing Alexkor

CT(BR) 5/12/97

(216)

Marc Hasenfuss & Matt Getz

Cape Town — A consortium including the Mineworkers Investment Company (MIC) is expected to bid for Alexkor, the ailing state-owned diamond miner in the Northern Cape, a mining industry source said yesterday

The government has been trying to sell Alexkor as it is a loss maker and it also wants to boost the privatisation process

The other consortium members are Trans Hex, the Rembrandt-owned diamond miner, and Ocean Diamond Mining Holdings (ODM), which has marine concessions in Namibia

The source contended that, although government was keen to encourage participation by smaller mining companies, the Trans Hex/ODM/MIC combination was a realistic option in salvaging Alexkor

"They are already holding discussions, but these could take a long time to conclude," he said

He said Trans Hex would be tasked with turning around Alexkor's ailing alluvial mining operations, while ODM could evaluate and mine the company's extensive marine concessions

"Alexkor is a very fragile mining operation with not a lot of alluvial mining reserves left," he said "It's certainly not the best mining operation in the world, but expert operators with low cost structures can effect a quick turnaround "

He said inexperienced operators that required long learning curves were a luxury Alexkor could not afford

It also emerged yesterday that OTR, the JSE-listed junior mining company, had also been invited to bid for Alexkor's mining rights Rick Gardner, OTR's managing director, said his company's manual-based extraction techniques could help reduce the area's unemployment

Penuell Maduna, the mineral and energy affairs minister, said South Africa had an abundance of unused mining skills, so he had asked OTR to look into reopening defunct mines. He said there was a need for micro community-based mining operations like OTR

Gardner argued that "because our production costs are so cheap, we're not talking multimillions We'll subcontract the deep mining The shallow mining will be done by catamarans and the beach and inland mining will be run by small OTR machines, just like our other operations "

"There are lots of small miners up there who haven't been able to get concessions," he said "Any company that can put a suitable business plan together that benefits the locals has a good chance "

But analysts said OTR was unlikely to win the concession "The only thing of value in Alexkor is the marine deposit and they're not experts," said one analyst

Another said Alexkor and the surrounding area were such a mess that it would take a company with real clout to sort it out "You'd need capital, technical expertise and security muscle (because of the escalating theft) "

□ Business Watch, Page 18

Loan collapse hits Russian gem sector

10/12/97 (2b)

Tim Cohen

LONDON — The Russian diamond industry could come under pressure after the collapse of a $500m loan facility to major producer Almazy Rossii-Sakha (ARS), which has been blamed on rivalry between foreign banks and Russian officials.

Industry publication Diamantaire reported the consortium of banks headed by NatWest Markets called off the loan, which has been under discussion for more than a year and which was due to be finalised on December 2.

The terms of the loan called for a three-month credit of about $100m and, if this was repaid on time, further loans would have become available.

The publication said sources differed on what caused the loan to collapse, bu Russian sources said the failure was due to rivalry between Russian officials and foreign banks.

This rivalry is thought to have occurred because the Russians did not want to accept downward revisions of prospects for the diamond industry as a whole following the turmoil in the Asian markets.

The loan was due to be used to develop new mines to replace the declining Udachny mine in Siberia and to improve and renew equipment.

The failure of the loan comes at a poor time for the company, which is seeking to raise several hundred million dollars via a Eurobond offering, but this is dependent on a rating process which will provide a clear picture of the company's internal finances and reserves.

Diamond International magazine executive editor Mark Cockle said the failure of the loan was likely to affect the company in the medium term.

However, he said the setback could be temporary as other money raising options might become available, including direct external investment.

A De Beers spokesman said the company had not been approached on this topic by ARS, although De Beers has in the past granted the company huge trading loans.

The record of repaying the 1991 $1bn trading loan by ARS, which produces about 26% of the world's diamonds every year and about 95% of Russian production, had been "exemplary", the spokesman said.

One loan to ARS that is going ahead is a loan of about $65m which is guaranteed by the US Export-Import Bank which will be spent on buying excavation and mining equipment from US suppliers, Diamantaire states.

The equipment will be used to buy cutting and polishing equipment to be installed at a factory in Moscow which will cut and polish diamonds of 10 carats and more for export.

A rough game of diamonds and dragons

(216) ET 29/12/97

1997 WAS THE YEAR that South African business moved firmly — and visibly — back into the international sphere. But for two of the established local players, led by South Africa's most famous entrepreneurial families, the Oppenheimers and the Ruperts, the Asian markets wild card is rocking the boat. **JON ASHWORTH** and **DOMINIC WALSH** report

STRONG South African players in the global luxury goods market, De Beers and Richemont, have not ended the year on a flashy note. Relentless turmoil in the Far East markets is having a disastrous impact on diamond sales for De Beers and Richemont, the Swiss conglomerate controlled by the Rupert family, a large part of whose business is heavily dependent on the Japanese and Far Eastern markets for sales of its prestige brands, Cartier and Piaget. Richemont is battling with highly volatile share prices as they plan to take full control of luxury goods group Vendome.

Earlier this month, De Beers moved to position itself as an independent company to stem the effects of a dramatically weak showing in eastern markets.

De Beers and Richemont are heavily dependent on the Far Eastern markets for sales of their luxury goods. The currency devaluations and economic turmoil in South-East Asia have had a "dramatic" effect on business.

Second-half sales of rough diamonds by the Central Selling Organisation, the De Beers marketing arm in London, were 30% down on the first half of 1997, at R8,5 billion. The figures were unveiled in Johannesburg by Mr Nicholas Oppenheimer and Mr Gary Ralfe, who are to become chairperson and managing director, respectively, of De Beers on January 1. Describing 1997 as a "roller-coaster of a year" Ralfe said the CSO would restrict the flow of uncut gems in an attempt to maintain prices.

Much depends on what happens in Japan, which speaks for about 25% of world diamond consumption, compared with America's 35%. Economic problems, coupled with a weakening of the yen against the dollar (De Beers prices its products in dollars) left sales in Japan 30% lower in dollar terms.

South-East Asia has been hard hit by currency devaluations and economic turmoil. Ralfe said: "The effect upon the diamond market has been dramatic, to say the least."

Now De Beers is breaking free from Anglo American, its long-standing bedfellow, as part of a "tidying up" exercise aimed at simplifying the Anglo group structure. All Anglo's diamond activities will be concentrated in De Beers, which will be a free-standing organisation.

Mr Julian Ogilvie Thompson, the Anglo chairperson, said that the move made strategic sense, and was in line with shareholders' wishes.

Oppenheimer said the newly-focused De Beers would be better placed to face the "very considerable challenges" facing the diamond industry. A renewed 13-month supply agreement with Russia was holding up well, and would, it is hoped, be extended.

Richemont, meanwhile, is pressing ahead with its plans to take full control of Vendome, despite the worsening Asian financial crisis.

Vendome, which is already 70% owned by Richemont, is heavily dependent on eastern markets for sales of its prestige brands, such as Cartier, Alfred Dunhill and Piaget, and its shares have been buffeted by the recent turmoil. The shares fell from a high this year of 5426p to a low of 3256p before their recent rally. Last week, as De Beers made their announcement, Richemont unveiled a recommended offer that puts a total value of £3,45 billion (R28 billion) on Vendome, which is chaired by Mr Joseph Kanoui. The board of independent directors, headed by Lord Douro, deputy chairperson of Vendome, which was set up to consider the offer on behalf of minority shareholders, also recommended the bid. For the deal to go through, it must be approved by 75% of minority shareholders, although analysts believe that there is unlikely to be much opposition.

Mr Johann Rupert, chief executive, said that he was well aware of the potential dangers from the Asian crisis, but noted that building luxury brands was a long-term business.

"I'm not overly enthused by what I see over there (Asia), but this is a business that operates on a ten- to 15-year timespan. Maybe we'll suffer, but I hope not as much as we fear," he said, adding that Vendome's experiences had raised the question of whether luxury goods groups should operate in the public arena when the short-term demands of six-monthly results were at odds with the long-term needs of brand development.

Rupert has rejected suggestions that he was taking advantage of the group's weak share price while the independent directors, who were advised by analysts Schroders, said that they had recommended the offer after taking account of "the increasingly uncertain environment in which Vendome operates and the fact that many of the brands would require significant investment over the next few years". Rupert said that investment plans would be decided in the new year.

Vendome became a separately listed company in 1993 when Richemont reorganised its tobacco and luxury goods portfolio. Richemont, which is quoted in Switzerland, with a secondary listing on the Johannesburg Stock Exchange, has a two-thirds interest in Rothmans International and a 15% stake in Canal Plus, the French pay-TV group. — The Times

FIGHTING TIGERS: Anton Rupert (left) whose company controls Richemont, the luxury goods manufacturer, and Nicholas Oppenheimer who will take over as chairperson of De Beers next month, have both been battling to deal with the slump in sales to their biggest market, South-East Asia.

MINING _ DIAMONDS

1998

Diamond colossus named in $3bn claim

De Beers is sucked into Congo battle

CT (BR) 12/1/98 (216)

SHERILEE BRIDGE

Johannesburg — The $3 billion battle between American Mineral Fields (AMF) and Anglo American, South Africa's largest corporation, over mineral riches in the Democratic Republic of Congo (DRC) could have far-reaching implications for De Beers, the South African diamond mining conglomerate, as it faced the possible violation of US antitrust laws, a London-based mining analyst said at the weekend.

The lawsuit was filed in a Dallas, Texas, court last week by AMF and Congopro Services, a South African company, against Anglo, De Beers and Minorco for allegedly interfering with AMF contracts in the former Zaire This month Gecamines, the state mining agency, announced it had cancelled AMF's rights to the $1 billion Kolwezi copper tailings project

South African analysts have dismissed last week's events as a "non-issue" while international analysts felt that the case was more serious

The UK analyst, who declined to be named, said that by also listing De Beers and Minorco in the suit, AMF may have been trying to draw the scrutiny of US antitrust authorities

The analyst said Anglo and De Beers would avoid sending representatives to the US because the American [illegible] department of justice had actions open against both companies for alleged antitrust violations.

Charmane Russell, an Anglo spokesman, said Anglo would continue to deny claims it had invested in a well-orchestrated financial campaign to win the favour of the DRC government.

She said the company had "no idea" why De Beers had been included in the suit since the diamond group was not included in the initial Kolwezi tender.

In the plaintiffs' petition, AMF claimed that Anglo, De Beers and Minorco — through their cross-linked shareholdings and interlocking directorships — were engaged in an elaborate scheme to "unlawfully monopolise the world's gold and gem diamond supplies".

It said that by "operating vicariously through interrelated entities", the defendants were able to participate in commercial activities in countries like the US, which they could not undertake as a single company.

AMF said that, through its shareholdings in Minorco, De Beers and Anglo were able to derive profits in excess of $200 million a year from Minorco's commercial activities in the US while shielding themselves from the antitrust prosecution by the US for their activities in the gold and diamond markets

It claimed similarly that the De Beers-Centenary link allowed the group to enjoy the profits from more than $7 billion in yearly diamond sales through the Central Selling Organisation (CSO).

Bobby Denchin, the chairman of the new mining business division at Anglo, said last week that while Anglo had been one of several initial bidders, including Gencor and Iscor, for the site, it was no longer interested in the tailings project and was pursuing "bigger picture" possibilities in the Kolwezi district.

mining rights

Maduna barred from handing over disputed diamond

BD 30/1/98 (216)

Stephané Bothma

PRETORIA — The heirs to mineral rights worth "hundreds of millions of rands" in a diamond-rich area near Pietersburg have turned to the Pretoria High Court to try to prevent Minerals and Energy Minister Penuell Maduna from granting the rights to Randgold and Canadian company SouthernEra for R980 000

Judge BR du Plessis granted an order provisionally preventing Maduna from handing over any mining rights until February 24, when the matter will be before court again.

The executor of the estates of Jozua Naude and Julius Kruger, attorney Jacobus Jordaan and 28 beneficiaries brought an urgent application against Maduna and his department after they learned last month that a certificate had already been issued which granted mining rights to Randgold & Exploration Company and SouthernEra Resources in terms of section 17 of the Minerals Act

However, the heirs had been offered R40m for the mining rights by black empowerment group Umnotho We-Sizwe Investment Holdings, which estimates the value of the mining project at R600m

In terms of the act, Maduna may grant his consent to outside parties to mine when the holders of the mineral rights cannot be readily traced This was not the case, as the heirs were available to have a say, Jordaan said

Documents before court claim "very rich" diamond deposits were recently discovered in the Pietersburg area in the Northern Province. Randgold and SouthernEra are already jointly mining some of the diamonds in a venture known as the Klipspringer Project

Jordaan says in December last year 28 beneficiaries were informed they had inherited mineral rights known as M1-pipe. At the same time they learned of the section 17 application.

The beneficiaries immediately informed the minister that they were interested in mining themselves, or in selling the rights.

Jordaan said that in December, Umnotho made a R40m offer for the mineral rights held by the heirs

"Although SouthernEra itself admitted that the mineral rights were worth hundreds of millions, the mineral and energy department valued them at R980 000," Jordaan said. "During informal discussions with SouthernEra, president Christopher Jennings said his company was prepared to negotiate for the rights but with Randgold they decided to try their luck in terms of section 15 first and to negotiate only if they didn't succeed."

Ocean Diamond Mining reports steady gem hauls

CT (BR) 21/1/(216)98

Marc Hasenfuss

Cape Town — Ocean Diamond Mining Holdings (ODM), the marine gem producer, had extended its consistent production record with a 15 967 carat haul in the third quarter to December 31, Andre Louw, the managing director, announced yesterday

Louw said total production to date from its Namibian concessions was 47 262 carats

"At the current rate of production it now looks feasible that ODM's production for this financial year (to March 31) may exceed the production figure of 57 021 carats recorded last year"

He said the company continued to gain experience in its mining environment The growing confidence in its ore reserve management had helped boost production by more optimal use of the company's mining capacity

On the state of the diamond market, Louw noted that since the European summer months the international rough diamond market for smaller stones had remained weak Average prices were significantly lower than those recorded a year ago

However, he pointed out that recent valuations were pointing towards similar prices to those at the end of 1996 for ODM's high quality gems "It is therefore expected that the average prices for this year will be slightly better than last year's average of $188"

He added that the rand had weakened against the dollar, which would have a positive effect on earnings for this financial year

The market expects the company, which earned R6,6 million at the interim stage, to generate bottom-line profits of more than R13 million this financial year.

ODM closed 5c higher at R4,15 in thin volumes, just off its recent low of R4,05 The share peaked at R8,20 almost a year ago

(216)

INSIDE MINING

Nicky Oppenheimer brings a new facet to De Beers

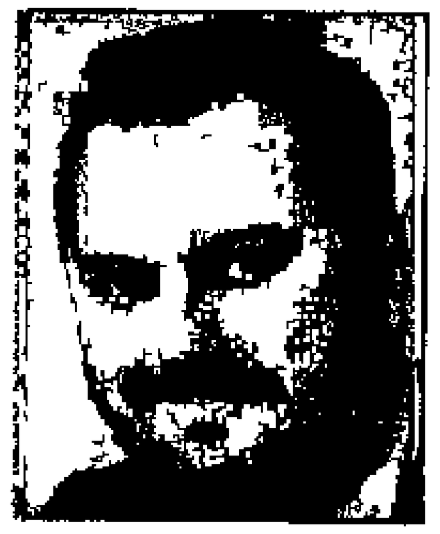
ET (BR) 22/1/98

De Beers, the diamond giant, is experiencing something it is not really used to With Nicky Oppenheimer now at the helm there is excitement and anticipation that things will be different.

De Beers staff believe Nicky will bring a more open style after many years of secretiveness and little interaction with the outside world under Julian Ogilvie Thompson, the previous chairman and still the deputy chairman

The waves of change sweeping through the Anglo/De Beers group come from an anticipated change at the top Senior management are positioning themselves for the changeover. The possibility is that Nicky will take the empty seat at Anglo when Ogilvie Thompson leaves his chairmanship there

Nicky has not projected himself as a strident leader, sparking questions about whether he is suitable for the job But this doubt comes from the contrast in style with the imposing Ogilvie Thompson



ANDI SPICER

Nicky commands the respect of those who know him, is a team player and is well-liked The diamond business has always been in the family and Nicky knows the ebbs and flows of the trade worldwide

He will need all these advantages in the years to come, as the periodic threats to De Beers' control of the world diamond trade are looming again

The problem with Russian sales has been patched over and will need to sorted out again next year Canada is starting to become more of a force in the industry And Australia has already cut loose from the Central Selling Organisation that markets De Beers' and most of the globe's diamonds Meltdown in Asia has sliced into the once-expanding economies of the region that were the future for diamond consumption growth

The relationship between De Beers and Anglo — once the terrible sisters and really two sides to one company — is also in flux Although both companies deny moving away from each other, there is an obvious delinking of management interests and style.

Anglo has sold its direct interest in De Beers and Centenary to Anamint, the financial holding company for De Beers, in order to concentrate all diamond activities in De Beers and Centenary In consideration, Anamint received new linked units in De Beers and Centenary, and De Beers' 10 percent holding in Anamint passed to Anglo Anglo now has no direct interest in De Beers, as all its holdings are in Anamint.

In organisation, De Beers is now to have its own separate staff, and all employees of Anglo American's Diamond Services Division will be transferred to De Beers. It has cancelled its existing service agreements with Anglo and established its own departments

The delinkage of the two companies is important for each other's growth De Beers is still facing legal problems in the US over antitrust suits, and Anglo/De Beers directors cannot visit the US for fear of legal implications If Minorco sells its North American gold mines to Anglogold, the unusual situation could arise that its directors will not be able to visit the mines

Gold and diamonds are also very different types of mining industries, with different sets of rules and markets Both commodity areas are under pressure — gold from central bank sales and the effective demonetising of the precious metal in the Western world, diamonds from the economic slowdown in Asia

But the approach to solving these problems demands a management structure with opposing mindsets Anglo needs to push its gold mines down the cost curve; De Beers needs to impose market order, stabilise prices and stimulate demand for its stones.

(21b)

De Beers is accused of gem theft

ET (BR) 27/1/98

FROM IFS

Windhoek — The Mineworkers' Union of Namibia (MUN) has launched a scathing attack on De Beers, the diamond conglomerate, accusing the company of stealing diamonds worth billions of dollars from Namibian waters

Peter Naholo, the general secretary of the union, said MUN was concerned because billions of dollars were going out of the country as a result of diamond mining by De Beers

Naholo said there was no proper monitoring of the quality and quantity of diamonds being exported by NamDeb, the country's largest diamond mining company in which De Beers and the Namibian government each hold 50 percent

De Beers was not available for comment on the accusations

Naholo claimed that the union's members were giving the union reports that several unidentified vessels were mining in Namibian waters and collecting diamonds with a helicopter before taking them to Cape Town

"There is something seriously wrong in our economic affairs," Naholo said

The union has also queried the sale of the country's diamonds through De Beers' Central Selling Organisation, which also earned commission on the deals, according to the union

It also accused NamDeb of accommodating workers in hostels, which it said contributed to the spread of the HIV virus.

The union has called for economic reconciliation

Canada important to De Beers

Neil Behrmann BD 5/2/98 (216)

ANALYSTS monitoring diamond developments in Canada contend that De Beers' Toronto-based prospecting company, Monopros, is unlikely to discover any viable deposits there

Therefore, the opening of De Beers' representative office in Vancouver two weeks ago implies the company will be aggressively seeking partnerships, in ventures and marketing deals, with local diamond mining firms, they say

De Beers chairman Nicholas Oppenheimer forecasts that within five years Canada will account for 10% of global diamond output And, in a study of Canada's diamond sector, Canadian brokers Yorkton Securities estimates that within three to four years Canada will produce almost 12-million carats of diamonds worth $950m a year

This means that in terms of value, Canada will be the fourth largest producer after Russia, Botswana and SA, and in terms of volume sixth biggest

Diamonds were found in Lac de Gras in Canada's Northwest Territories in 1991 Dia Met Minerals and BHP Diamonds, a division of the huge Australian mining company, are about halfway into building of their $700m Ekati Diamond Mine, scheduled to begin operations in October

The mine is expected to produce 3 to 4-million carats a year, about 3% of world output, says Yorkton Close behind is Aber Resources and Rio Tinto's Diavik project, promising to be an even larger producer, with projections of about 8-million carats by 2001/02

"The value of the reserves compare with the best in the world," says Yorkton It estimates the Aber/RTZ project has reserves which will yield as many as 335 carats per 100 tons of ore, with 15% of gem quality. The average value per carat could be about $50

The Dia Met/BHP mine is expected to yield 109 carats a ton, with 30% of the stones gems. From samples Yorkton estimates that average value a carat will be $84

These projections compare well with Botswana's rich Jwaneng mine and Venetia, De Beers' SA mine, which produces 120 carats per 100 tons, with value a carat $80. Udachnaya, the Siberian mine, has an average value of $100 a carat. Canadian analysts say it is thus hardly surprising that De Beers is taking Canada so seriously.

Production to start despite rights row

David McKay BD 17/2/98 (216)

SOUTHERNERA Resources, the Toronto-listed diamond company, is to start production at its Klipspringer project this month despite a mineral rights row over a section of the Northern Province venture.

The dispute concerns a pocket of mineral rights at the Marsfontein farm of Klipspringer which SouthernEra Resources was to mine first

SouthernEra president Christopher Jennings said yesterday the company would start production on an alternative, but lower grade, site — the 100%-owned Sugarbird kimberlite blow.

Jennings hopes the Klipspringer project will make SouthernEra Resources one of the world's largest diamond producers, though still well behind De Beers

SouthernEra already produces 25 000 carats a year from sites in Angola. The Klipspringer project, set on 50 000ha of land consisting of about 19 farms, will eventually lift annual production to 1-million carats

Pit preparation on the Sugarbird site is to start next week The blow is expected to contain about 75 000 tons of kimberlite material grading about 1,57 carats a ton to a depth of 60m.

Preliminary valuation on a small parcel indicates that diamonds recovered from the blow will average at least $85 a carat Diamonds from the Marsfontein farm are expected to be worth $100 to $120 a carat

Commenting on the minerals rights dispute, Jennings said it would be "very worrying" to outside investors if the company lost the case

In terms of existing law, SouthernEra attempted to trace the mineral rights owners, but found the minerals had not been registered under a new name since 1920, when first claimed.

Shortly before starting mining on the farm, several people claiming to be heirs of the original mineral rights holders came forward. The matter is to be heard in court on February 24

The Marsfontein farm is 50% owned by SouthernEra, which has the right to build up an interest of up to 65% of the project from SA mining group Randgold. SouthernEra, which has so far spent about $180m on the project, was continuing exploration elsewhere at Klipspringer.

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Cabinet committee decides to bring in private firm to manage Alexkor

(21b) BD 13/2/98

Reneé Grawitzky

A PRIVATE mining firm or consortium is to be brought in to manage state-owned diamond mine Alexkor in the Northern Cape.

An interministerial cabinet committee agreed yesterday on this route rather than to sell Alexkor

The committee agreed in principle to split up the mine's core and noncore activities, which included agricultural operations and social service functions such as a hospital and school

The decision comes at a time when the mine needs R137m to fund exploration to extend ore resources, and in the wake of the lodging of an aboriginal claim to the high court and a land claim to the Land Claims Commissioner by the Richtersveld community.

Alexkor acting CEO Tien Combrink said: "The most important thing now is for momentum to ensure the road is paved for final restructuring"

Société Générale Frankel Pollack analyst Ross Gardiner said bringing in a private firm could prove problematic if a management company was not given pre-emptive conditions, especially if it injected huge amounts of capital.

Public enterprises ministry adviser Kennedy Memani said details, procedures and terms of reference for the management contract still had to be decided At this stage, the successful company would not get an equity stake. However, consideration might be given to granting an equity stake in exchange for an injection of funds.

Kennedy was confident that funding for exploration could be achieved on the back of a management contract

The National Union of Mineworkers (NUM) has opposed granting indirect equity, which it believed was tantamount to a pre-emptive bid

Memani said that the process, whether it be through limited bidding or tendering, would be transparent

Public Enterprises Minister Stella Sigcau said government did not support a long, binding process as a competent management company needed to be appointed as soon as possible.

Sigcau stressed that the noncore activities, such as agriculture, could become the core activities.

Gardiner said there were a number of consortiums interested as the mine had ample resources and would be far more appealing once the value was known. Industry sources said firms including De Beers, Malaysian Mining, American Mineral Fields, Trans Hex and Ocean Diamond Mining had expressed interest, while a number of firms had approached NUM investment arm, the Mineworkers' Investment Company, to form a consortium.

Delay in privatising diamond producer 'affecting morale'

(216)

Productivity low, workforce uncertain

ARG 18/2/98

ED WEST
DEPUTY BUSINESS EDITOR

The delay – for the next three to five years – in the privatisation of Alexcor has had a negative impact on the morale of employees at the west coast diamond producer, says the chief executive officer, Tian Combrink.

He told the parliamentary portfolio committee on public enterprises yesterday that the company had first been led to believe that it would be privatised by December 5, 1997

The delay in the privatisation plans, the level of uncertainty created and the declining profitability had had a significant impact on the workforce

Productivity was low and discussions were taking place with trade unions about decisions which would need to be taken regarding employees

'Alexcor said theft of diamonds was endemic on the west coast and police are not prosecuting'

The plans to privatise the Government-owned company had been delayed so that its full net worth could be ascertained and so that diamond exploration could take place.

Mr Combrink said Alexcor's falling cash reserves had been aggravated by the fact that it had spent R34-million on exploration in anticipation of receiving about R290-million of Government funding for this purpose

However, this funding was no longer forthcoming in the short term

He said Alexcor comprised about 16 other business units apart from offshore and onshore diamond mining, such as an airport, hospital and ostrich and dairy farms

It was generally accepted that these operations should be separated from the group as a matter of urgency, he said

Alexcor told the portfolio committee that while it aimed to be a world-class producer of diamonds, with its own marketing arm, theft of diamonds was endemic on the west coast and the police simply "are not prosecuting".

Alexcor is currently a respondent in a land claim by the Richtersveld community Mr Combrink said the company had appointed a legal team and the community had been engaged on the issue. At this stage it did not appear as if the community's claim would jeopardise future mining operations, he said

OFFSHORE MINING

(216) km 20/2/98

Deep-sea miners wage war for billions in diamonds

Latest hi-tech mining tool must conquer the Atlantic swells

The mid-January deployment of Namibian Minerals Corp (Namco)'s R48m seabed crawler to mine ocean diamonds off the coast of Luderitz in Namibia dramatically ups the ante in the race to prove to investors that such mining is both possible and sustainable

Namco, along with Benguela Concessions (Benco) and Ocean Diamond Mining Holdings (ODM), is following in the footsteps of industry leader De Beers Marine in search of high-quality diamonds off the west coasts of SA and Namibia

This high-stakes, hi-tech battle is fought against the extreme weather conditions of the Atlantic seaboard, and complicated by corporate infighting and shifting alliances The contenders are jockeying for investment rating and backing as well as prospecting leases and political support

Benco and Namco fought a bitter legal battle in 1994 and 1995 Benco came out the winner, and there is still bad blood between the two JSE-listed companies

Learning of a visit in early February by investors and analysts to see Namco's vessel — the *MV Kovambo* (named after the wife of Namibian president Sam Nujoma) — in action, a Benco executive sniped "You'd better check it's actually operating Last time we flew over, it wasn't and the ship was headed to port in Luderitz "

Bitter words, but correct As is to be expected in the deployment of new technology, the mining system still has teething problems

Benco's own mining vessel, the *Moonstar*, was drydocked in August last year after storms lashed the company concessions off the Namaqualand coast The raging seas, which ripped anchors and cables from the craft, forced a loss of about 38% in scheduled operating time

Namco has opted for undersea mining using a machine that would have drawn praise from Jules Verne Christened the NamSSol, it weighs more than 120 t, stands six metres high and is eight metres long It will mine the seabed at depths of up to 150 m using a suction method capable of shifting up to five metres of sediment to get down to bedrock where the diamonds lie

The NamSSol will be remotely controlled from the surface and should be able to operate in ocean swells of up to six metres and any weather conditions short of a gale

That is critical The great problem for all the companies has been the disruption caused by the savage West Coast winters Such storms knocked Benco's production by 50% during April and May last year

NamSSol's designers say it will be able to operate, on average, for 20 hours a day for a minimum of 300 days a year

Namco has spent R90m in exploration work off the Namibian coast over the past three years, and has identified a resource of 2,65m carats of diamonds The company plans to mine it at a rate of just over 200 000 carats a year, though the first year's output is estimated at only 20 000 carats by Nomura Equities analyst Sean Murphy This is to allow for "production hiccups"

Murphy says that at full production of at least 183 500 carats a year, Namco will generate an annual net income of about US$17m (R85m) within two years

Should Namco achieve these targets it will become the second-largest offshore diamond mining operation in southern Africa, behind pioneer De Beers Marine, which in 1996 recovered 470 892 carats

That's assuming everything goes according to plan A myriad of factors can throw plans out of kilter, which is why the share prices of companies such as Benco have risen and fallen like the Atlantic swells These are not shares for widows and orphans

The target resource lying under the ocean has been estimated by ODM MD Andre Louw at around 3bn carats

It consists of diamonds that, through the process of erosion over millions of years, were stripped out of the host kimberlite pipes inland and washed down to the sea

The diamonds' attraction is their high quality impure and inferior stones were destroyed in the journey to the ocean

The average value of these diamonds is estimated at $180-$200/carat, compared with an average of $100/carat for production from SA kimberlite pipe mines So the hoard could be worth $600bn in total

The benefits from the operations of the offshore diamond mining swashbucklers have extended to the drydocks in Cape Town Maintaining the growing fleet of vessels — and the helicopter companies like Civair and Court that provide back-up support — is big business **Brendan Ryan**

MV Kovambo *support vessel for mining monster NamSSol*

MINING *Nicky Oppenheimer, the new chairman of De Beers, confirms a move away from Anglo*

'There must be change, but not immediately'

(216) CT (BR) 26/2/98

ANDI SPICER
MINING AND RESOURCES EDITOR

Johannesburg — Nicky Oppenheimer is very much an unknown quantity in the international business community. The new chairman of the world's largest diamond company De Beers, is an enigma.

Opinion is divided on whether he is simply a representative of the Oppenheimer family and its financial interests in De Beers or a shy man who has been under the shadow of former chairman, Julian Ogilvie Thompson, but has much to add to the future of De Beers.

"It will obviously be difficult, but I'm not a believer in making right hand or left hand turns," he said on Monday. "There must be change, but not immediately. De Beers is going to make a new beginning and separating ourselves from Anglo American in a more visible way will make for change. We have to make a clear definition of what is De Beers and what it is to be a De Beers' employee."

Anglo American and De Beers have essentially been one company with shared staff and cross-ownership. The cracks, however, are starting to show and although both companies deny that they are going their separate ways, there is a parting. De Beers is leaving the Anglo building in the Johannesburg CBD and opening a new office at Crown Mines. The staff will be separate and the cross-ownership has been tidied up with Anglo's holdings in De Beers put into Anamint.

Under Anglo's restructuring plan, the Oppenheimer family which has large holdings in both companies has relinquished its automatic slice of 5 percent of any new exploration projects.

"There is an assumption that the Oppenheimer family owns a large part of the companies. But part of the unwinding of Anglo and De Beers is that formal agreements, and relationships with a long history between the two companies to share in the diamond business, will be terminated," Oppenheimer said.

He denied that this meant the Oppenheimers would take a less active role in the companies and pointed to his promotion at De Beers as proof. "This move is because we would like the company to be more focused and fit in more with the world today. It was a right, but also an obligation," he stressed.

ENIGMATIC *Under Anglo's restructuring plan, the family of Nicky Oppenheimer (pictured) will relinquish its automatic 5 percent slice of new exploration projects*

PHOTO: JOHN WOODROOF

Oppenheimer, the third generation to lead the company that his grandfather founded, has come to the helm at troubled times. A prominent brokerage house downgraded the diamond company earlier this week to neutral from being a "growth" stock to a "value" stock as earnings are expected to fall in the forthcoming results.

The Asia crisis has eroded demand for luxury goods and diamonds in particular. De Beers' marketing and distribution division, the Central Selling Organisation (CSO), has been active in soaking up excess supplies of stones in the market to stabilise and support prices. The share price has tumbled and he admits that it is "extremely low and simply reflects the non-diamond assets".

"We've slipped back from Anglo and I'm not sure why it has come down as much as it has. I hope people will not lose De Beers in the mass of Anglo and value it for what it is."

The fall in demand in Asia is a "temporary affair as diamonds remain the ultimate gift and remain special to people".

"There is not a dramatic change long term and we hope the market will improve as the year goes on. We will continue to sell into the market what it can absorb. Sales are down, but we are in the business to take the pain," said Oppenheimer.

The dispute with Russian producers is now over and Oppenheimer said that the new marketing agreement, signed late last year, was succeeding. "The current arrangement is going extremely well, and we are approaching the Russian government to extend the contract," he said. "We hope for longer than the present 13-month agreement. Traditionally the Russian contracts have run for three to five years, and this is sensible. Certainly the (Russian) mining companies would like to do this as it is in their best interests. We've had a 30-year relationship, and then just one year of not having a contract."

Angola was still posing a problem with unofficial diamond production and exports leaking on to European and Middle Eastern markets because of the ongoing civil war. "We need real peace there, and for formal mining to restart. But last year there were not as many diamonds (leaking on to the market) as the previous year and we've been buying a lot of the diamonds in Antwerp and Tel Aviv."

Oppenheimer succeeded Julian Ogilvie Thompson as the chairman of De Beers. But the former chairman still heads Anglo and is still deputy chairman of De Beers. Speculation has been rife about who will take the top post at Anglo when Ogilvie Thompson retires in a few years' time. Some are backing Oppenheimer.

"We will have to see what happens," he said. "I'm not a great crystal ball man and my main concern now is De Beers."

The move to Crown mines will not make De Beers "isolationist", he said. The reason for the different directions by Anglo and De Beers is a mixture of fashion and practicalities. "It is a desire by De Beers to become more focused, even though we are one of the most focused companies in the world in that we're myopic about diamonds. We now have a physical separation of facilities from Anglo and are completely separate. The cross holdings will certainly stay and De Beers will hold large amounts of non-diamond assets. Our investment in Anglo has been a very good investment. We're happy to debate whether these non-diamond assets should be more wide ranging as we've come to hold the Anglo assets on a historical basis.

"De Beers needs to be more holistic and the Johannesburg and London operations need to get together and become more integrated."

Oppenheimer's vision is to maintain De Beers as the most important diamond producer and distributor in the world and to be quick on its feet to react to new circumstances as well as managing the uncoupling from Anglo, which he says is "very complex".

The uncompromising and often distant Ogilvie Thompson is a very different person from the shy and reserved Oppenheimer. But insiders rank his abilities and say that he is team player and is a listener who knows how to get the best out of his employees. What he lacks in drive compared to Ogilvie Thompson, he more than makes up for in strategic thinking. The criticism of his abilities to lead De Beers has more to do with the clash in styles between the two men and the lack of public exposure for Oppenheimer.

"The proof of the pudding is in the eating. There will not be a dramatic change as I've worked closely with De Beers for more than 10 years as head of the CSO. I've always been a believer in taking colleagues with you. You can't be autocratic. You will see incremental differences at De Beers, not dramatic ones," he explained.

DIAMONDS *Asian crisis hits demand*

Tough year ahead for De Beers

CT(PR)4/3/98

(21b)

Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — The Asian economic crisis meant that De Beers, the world's largest diamond company, would face a "challenging year ahead" as demand for its stones fell in the region, the company announced yesterday

Jeremy Pudney, De Beers' marketing director, said "The outlook for this year will be for the US to remain strong and for Europe to improve But it will be another difficult year in Asia, and Japan remains crucial to any significant improvement"

Asia was the main growth area for diamonds and, because of the economic slowdown, almost all luxury goods had seen a massive drop in demand Japan has been particularly hard hit, with diamond imports falling and destocking evident throughout the retail trade

Nicky Oppenheimer, the newly appointed chairman, said "We face difficult times Last year was a year of contrasts as sales in the first half were strong, but thereafter much weaker"

Oppenheimer said he was "very concerned about Japan", but a more buoyant market for diamonds in the US had partly offset the weakness in Asia

The US market continued to grow and the UK was the star performer in Europe, with Germany depressed

"Most of the economic problems in Asia happened in the second half of the year and we have to face it that it will be a difficult market to come We haven't felt the full impact because it hasn't been happening for a full year yet," said Pudney

Reporting the company's results for the year to December last year, De Beers said that in local currency terms the amount spent on diamonds worldwide and the number of pieces bought was static, but there was a 4 percent decline in dollar terms

"You have to look at the enormous growth previously It is now a global business and there is a spread of demand, which helps to smooth out the peaks and troughs," said Pudney

Headline earnings were up just 1 percent at $1,05 billion and 275c a linked unit Total net earnings were 9 percent lower at $1,229 billion or 323c a unit Dividends were maintained in dollar terms at 102,8c

Diamond stocks were reduced by 6 percent, but "stocks in the Central Selling Organisation will certainly rise in the next year", said Gary Ralfe, De Beers' managing director

The lack of Russian diamonds, because of the hiatus in the marketing agreement last year, would also have hidden some of the effects of the Asian meltdown

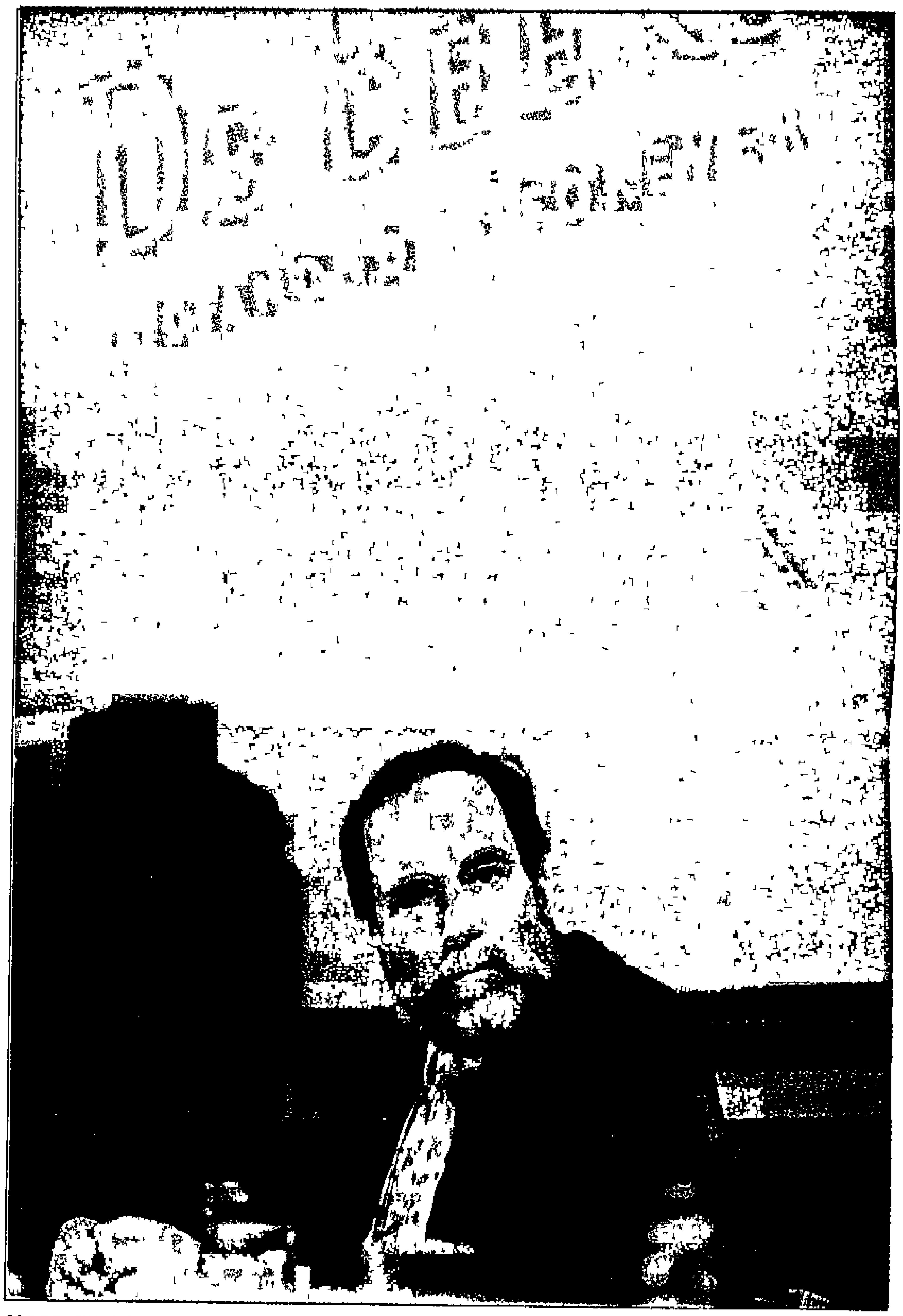
"The situation feels worst on the rough (diamond) market This is why we're having such small sights The level of confidence has fallen sharply since August last year," said Ralfe.

Oppenheimer said the group's combined diamond account went up 14 percent to R3,87 billion

De Beers disposed of its shareholding in JCI in May 1997 at a price of R54,50 a share It also reached an agreement in principal to exchange its interest in Lonrho for a portion of JCI's holding in Joel and Western Areas gold mines

De Beers' share closed 70c higher at R99,20 yesterday

□ Business Watch, Page 20



HARD TIMES *Nicky Oppenheimer, the newly appointed chairman of De Beers, says difficult times lie ahead and Japan remains crucial to any marked improvement* PHOTO: JOHN WOODROOF

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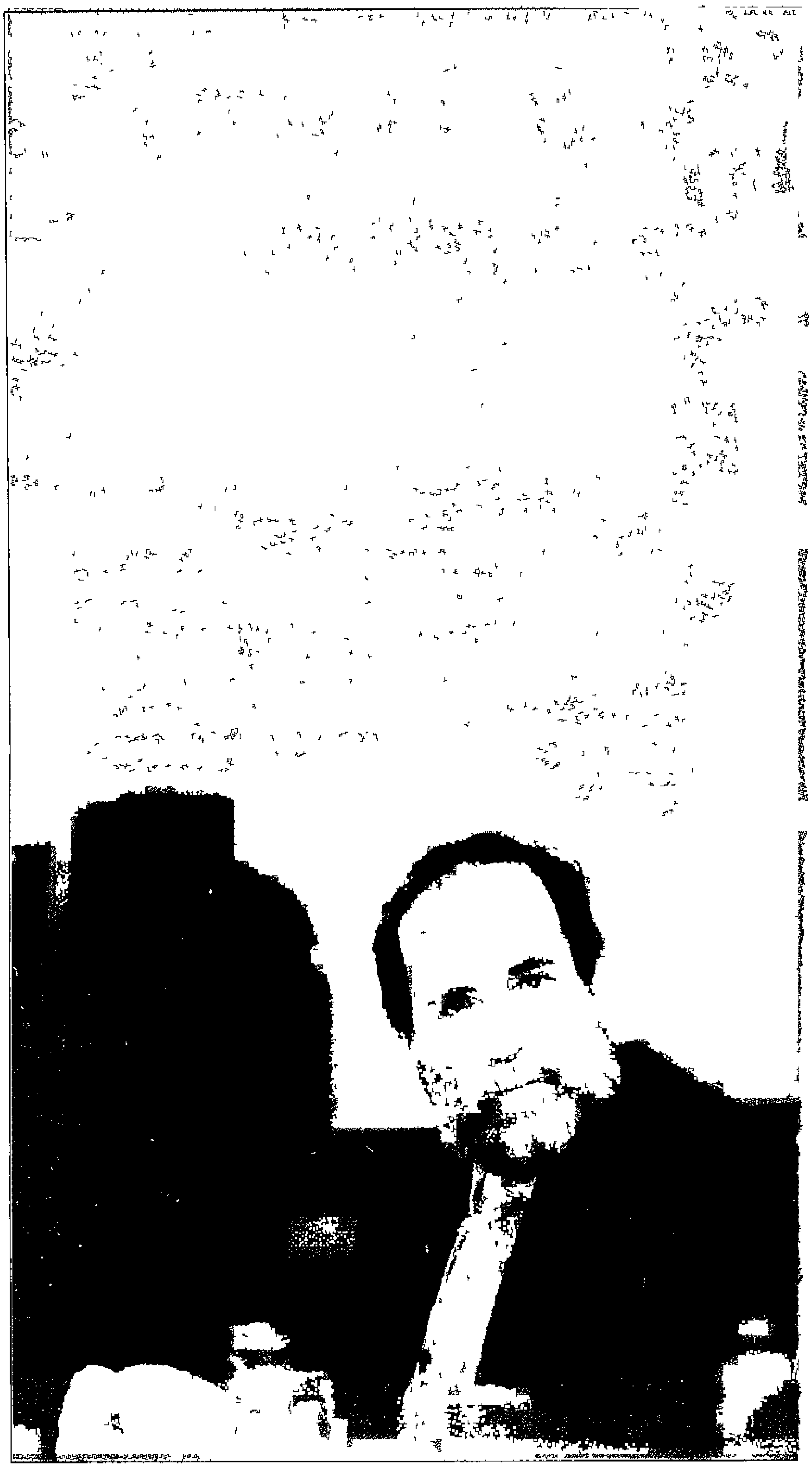


HARD TIMES *Nicky Oppenheimer, the newly appointed chairman of De Beers times lie ahead and Japan remains crucial to any marked improvement*

De Beers hit by poor trading conditions

BD 4/3/98 (216)

David McKay

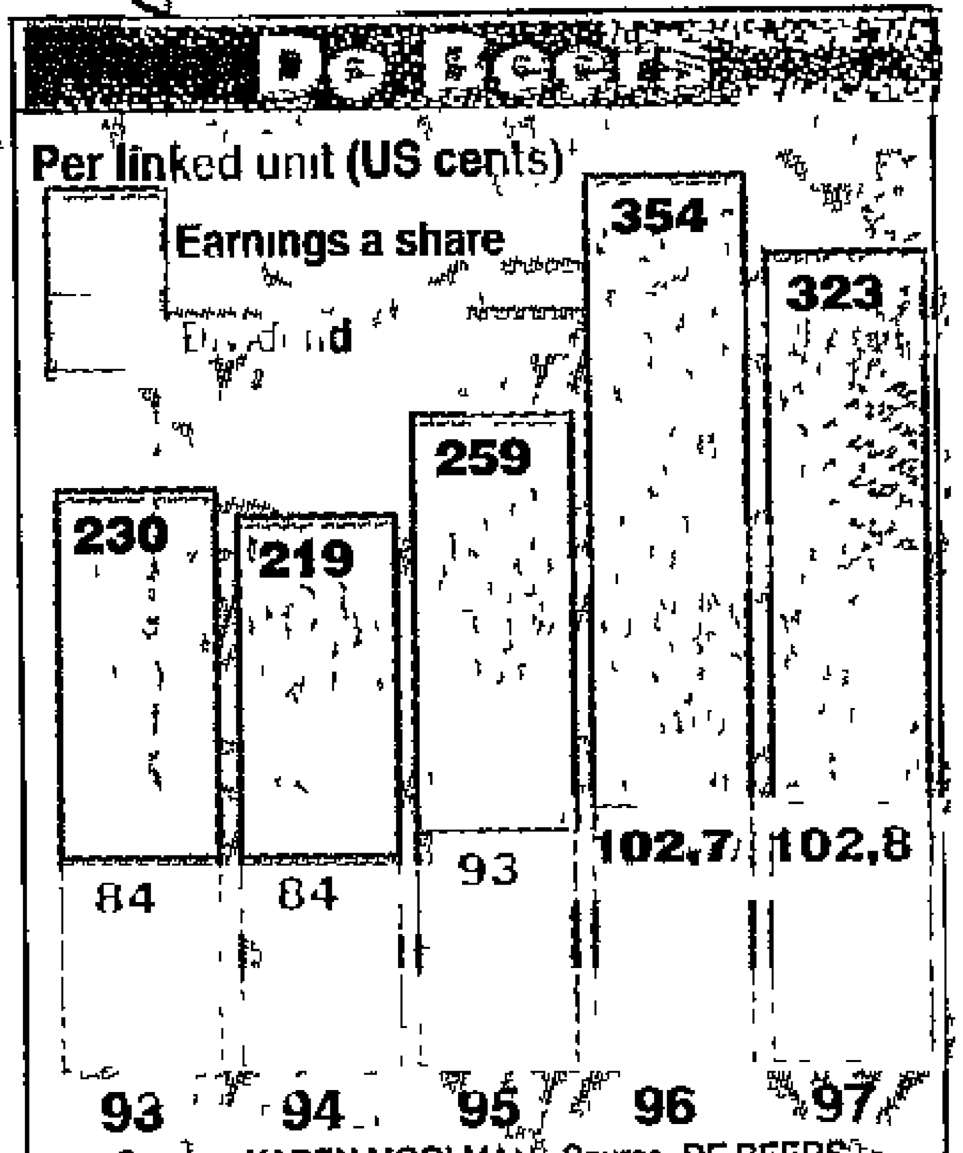
DIAMOND group De Beers reported a slim 1% increase in headline earnings to $1bn or $2,75 a linked unit for the year to December following poor trading conditions in its Asian markets

De Beers' results are made up of the SA-based De Beers Consolidated Mines and the dollar-denominated Swiss-based De Beers Centenary AG

Chairman Nicky Oppenheimer said the year was dominated by contrasts in which large diamond sales in the first half were offset by a poor second half

The financial crisis in Asia, which took hold in the second half, hit retail consumption, particularly in Japan — a key retail market for De Beers

Asian markets for both polished and rough diamonds were also affected by the financial crisis, he said.



Graph KAREN MOOLMAN Source DE BEERS

De Beers' performance chimed with market forecasts and underpinned the pain suffered by its share price on the Johannesburg Stock Exchange (JSE) this year De Beers' shares hit a new 12-month low of R86 in January, but since has recovered. This trend continued yesterday with the share regaining 70c to end at R99,20

Continued on Page 2

De Beers

BD 4/3/98 (216)

Continued from Page 1

Oppenheimer declined to forecast this year's earnings as the diamond market was fickle, he said, and could even regain strength.

The two diamond sights held so far this year, however, in which material was offered to selected cutters, polishers and manufacturers, would remain small, he said

There were pockets of hope in the Asian retail market, the US market continued its growth and the European market, led by the UK, regained ground.

Ironically, De Beers' diamond stocks were reduced Its marketing arm, the Central Selling Organisation, had been buying only on an ad hoc basis from Russia which enabled it to sell from its own stocks, helped by supply declines from other producers

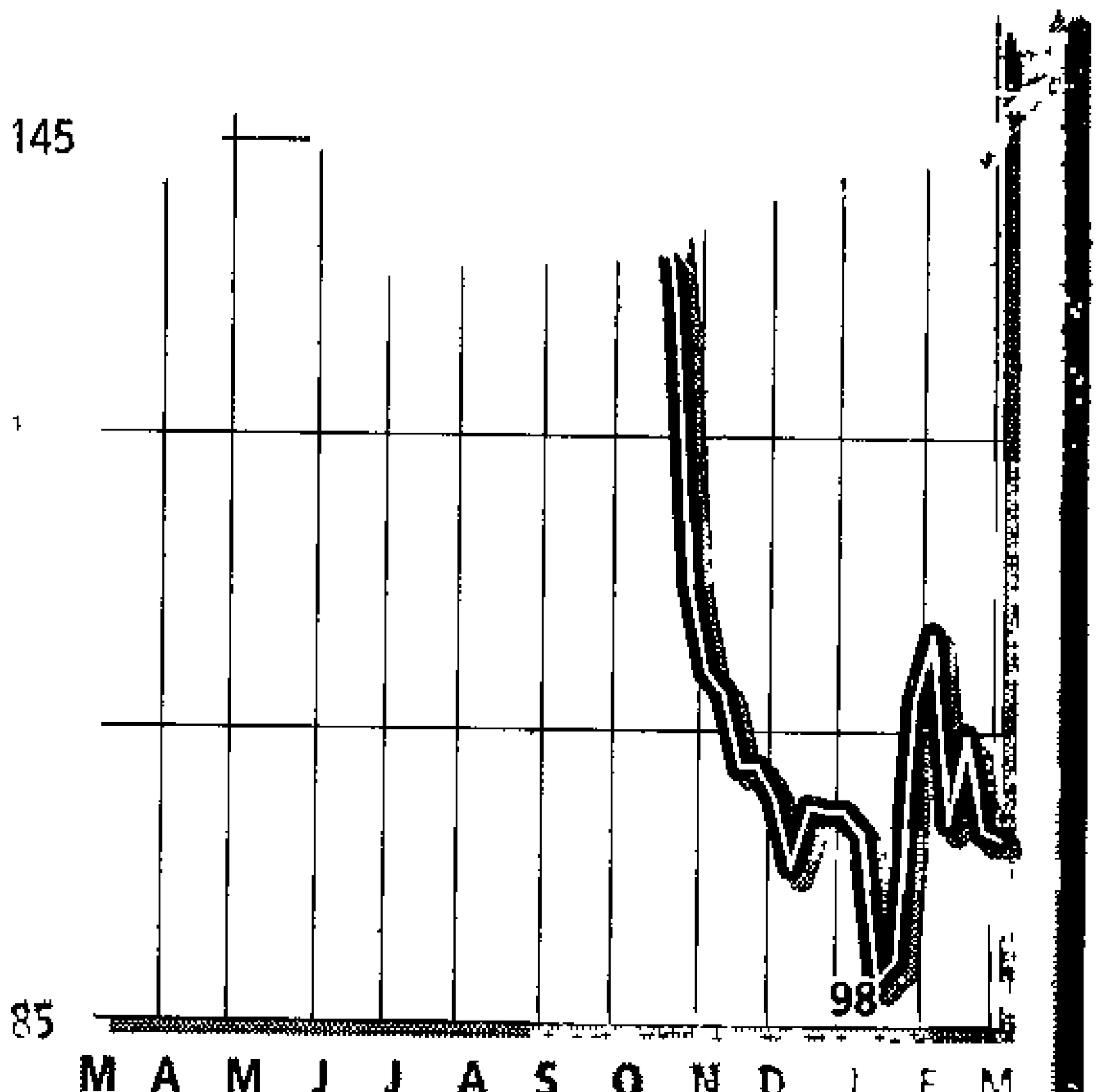
The marketing agreement with the Russians was now functioning and diamond leakages to cutting centres had fallen significantly.

Sales of rough diamonds by the CSO were 4% lower at $4,6bn but in value were the second-highest in the group's history, Oppenheimer said

The combined diamond account of Centenary and De Beers Consolidated was 6% higher at $849m, affected by the influence of the weaker rand against the dollar.

Investment income, primarily from Anglo American and Amic, was also higher. An exceptional item of $4m was declared as a result of the loss on the disposal of its stake in UK conglomerate Lonrho which rubbed out the profit made on the sale of mining group JCI.

ROUGH AND SMOOTH .. a turbulent year for Nicky Oppenheimer



Graphic FIONA KRISCH

Turmoil in Asia shows up as a crack in De Beers

ST(BT) 8/3/98 (216)

DE BEERS' new chairman, Nicky Oppenheimer, hosted his first presentation to investors and analysts in circumstances he would not freely have chosen, earnings down and prospects unpromising. But, as he said at the new corporate headquarters of De Beers in Johannesburg, "it's much too early to tell what the whole year will bring".

Nevertheless, the market took summary judgment and lopped 190c off the share price to R97 30 following the announcement While earnings were a shade higher than most had expected, De Beers has substantially reduced the size of its first two sights and management gave little indication that the quantum would leap in the next few

Oppenheimer describes 1997 as a year of contrasting halves, the second part being hit by economic turmoil in some Asian markets In dollar terms, De Beers' headline earnings edged up by 1% to \$2 75 per linked unit — some 9% in rands to R12.52 The dollar dividend was held at 102 8c, or 500 2c in local currency, at a reduced cover of 1 6.

Director Jeremy Pudney outlined the world market for diamond jewellery In 1996, some 66 9-million pieces of diamond jewellery were sold for a retail value of \$52 3-billion — a record year But the dollar's strength and Japan's and indeed Asia's weakness made 1997 a difficult year although America itself was strong as were India and the Americas, and Europe recovered Preliminary results show virtually no change in the number of pieces sold although the retail value retreated perhaps 5% and the dollar diamond value by 4%.

Asia was a mixed bag in terms of sales. By diamond value, sales fell 18% in the Asia-Pacific region in the second half year Only Singapore and China/Hong Kong grew, but Taiwan flattened off after a two-year fall, India was well up, the Gulf was slower but Turkey emerged as a new market.

America had a 38% share of the diamond market by value in 1997, Japan 20%, Asia Pacific 15%, Europe 12%, Asia-Arabia 10% and others 5%

Pudney says America remains strong and Europe should again improve, but it will be another difficult year for Asia Japan's recovery is crucial to the market and De Beers has embarked on a sales campaign to promote the wearing of diamond jewellery. De Beers seeks to reinforce diamonds for the long-term the sleeping Tigers will reawaken soon Pudney says the 1998 trend will be down, but similar to 1997

Director Gary Ralfe says the Central Selling Organisation has responded to the decrease in retail consumption and trade destocking by reducing its sales, which in turn means that the CSO is not taking full deliveries from its contractual producers such as mines Oppenheimer says it would be misleading to say by how much the quotas have been cut until the full year has passed

The restricted CSO sales and the shortage of rough diamonds on the outside market as a result of limited Russian sales and a downturn in supply from Angola (where reserves are depleted and the Angolan government has repatriated Congolese garampeiros) is having a positive impact in reducing cutting-centre stocks of rough and polished diamonds, which stood at \$5-billion at the start of the year

Oppenheimer says De Beers is testing a scheme to mark the table of diamonds with a De Beers logo not visible to the naked eye nor to a regular jeweller's eyepiece although readily seen through a microscopic reader on the jeweller's counter The stones will be test-marketed in Manchester, England, this year, Oppenheimer says the move is to reassure diamond buyers of the value of their purchase

Mine theft runs into millions

Linda Ensor (216) DD 25/3/98

CAPE TOWN — Theft of diamonds from Alexkor's Northern Cape mine were estimated to total between R600m and R800m within the last year, chairman of Parliament's portfolio committee on public enterprises, Mandla Msomi, said yesterday

The scale of the theft of the diamond resources, which management was not even aware of, were discovered during a visit by committee members Many of the diamonds were stolen from Alexander Bay

Msomi said the cabinet would be presented with the committee's urgent recommendations arising out of the visit

Stakeholders ranging from management, labour representatives and community leaders were approached for their views on the fate of the mine

"Unless government comes up with an innovative supporting mechanism to allow mining to continue to yield diamonds, prop up the exploration fund and improve the security apparatus, we will lose this state asset," Msomi said

"We are in a crisis situation We need to do something urgently," he said.

Msomi described the situation in the coastal town as precarious as the community was dependent on mining for their livelihood.

The mine was in a "catch-22" situation as it needed to beef up its security — an exercise that would cost about R40m. Msomi said the committee estimated that R500m was needed for exploration, though a report suggested that R137m was required to fund exploration to extend its ore reserves.

ising the potential of ecotourism to contribute to development, it will be by and find in it an opportunity for their development," he said — Sapa.

Alexkor diamond company spends R20m fighting theft

Linda Ensor

BD 27/3/98 (216)

CAPE TOWN — Alexkor, the state-owned diamond company on the West Coast, invested R20m in an upgrade of its security system to address the "endemic" theft of precious stones in the area, acting CEO Thian Combrinck said yesterday.

He dismissed as without factual basis claims by Mandla Msomi, the chairman of Parliament's portfolio committee on public enterprises, that theft amounting to between R600m and R800m had occurred over the past year.

"The issue of the use of homing pigeons as 'diamond carriers' has been addressed and final deliberations with the local pigeon club on its future are taking place next week," Combrinck said.

Enhancing security was one of several initiatives planned to ensure the company's turnaround.

"The other interventions are increased efficiency, cost reduction, the separation of the nonmining activities and a review of marketing channels to ensure the optimum price for the company's diamonds," Combrinck said. "Exploration funding is to be obtained on the back of a management contract due to take effect within six months," he said.

Regarding the vulnerability of the local economy because of its excessive dependence on Alexkor's operations, Combrinck said the development of tourism and marine culture as the building blocks for the post-mining economy in the region was at an advanced stage.

Kriel seeks justice probe

Linda Ensor

CAPE TOWN — Western Cape premier Hernus Kriel has asked President Nelson Mandela to set up a commission of inquiry to examine the structures of the criminal justice and policing system.

He wants the commission to report its findings by May 24. BD 27/3/98

The plea came shortly after he announced the establishment of a task team to develop strategies for combating gang violence and to stabilise crime at schools.

The task team was set up to upgrade the criminal justice system "to bring about more effective prosecutions and successful detentions".

Action plans included the use of police from outside the province to clean up gangster areas.

Death trap at the diamond dig?

(216) CP 5/4/98

By DAN DHLAMINI

AN INQUEST into the death of an alleged diamond thief under a hail of bullets last Friday is expected to reveal the violent secrets of diamond digging activities in the North West Province

This is the feeling of members of the black communities of Makwassie, Bloemhof, Wolmaranstad and surrounding areas, who claim white diggers usually "take the law in their own hands"

Community leader Gabriel Haphane told City Press that four men, Isaac Tlhoe, Bossie July, Daniel Sebusho and Samuel Maarman, were allegedly led into a trap by a police informer – known only as KK – and were ambushed by diggers and police officers

He said the "brutal murder" of Maarman, in the presence of Bloemhof Diamond and Gold Unit members, "was the very last straw" and the communities wanted to march in protest to the police station next week

According to the dead man's father, Kleinbooi Maarman, his son and many other youngsters were paid wages of "only between R20 and R60 a week" and as a result of this were tempted to steal

However, Maarman, a pensioner, who is worried he won't be able to afford burying his son, said while he could't condone the alleged attempted theft he failed to understand why the police had not just arrested his son

"I was told the police and the diggers were tipped off that some people would sneak on to the premises and so they laid an ambush for my son and his friends

□ North West police spokesperson Linda Grimbeek this week confirmed the shooting incident which claimed Samuel Maarman's life

Grimbeek said Maarman was shot dead by police and white diamond diggers who lay in ambush for him and his friends last Friday at the Oersonskraal Diamond Digging premises, near Makwassie

She however denied that police gave diggers the permission to fire at the suspected diamond thieves

Grimbeek said the police and diggers waited for the suspects and after a police flare was set off "a night guard in cahoots with the thieves fired at the police and the diggers with a shotgun" and in the return fire the youth was struck down

□ The inquest date is yet to be set

Gem miner secures Angolan deal

17/4/98 CT (MR) (216)

Marc Hasenfuss

Cape Town — Ocean Diamond Mining Holdings (ODM), the marine gem miner, could be mining in Angola within nine months following confirmation yesterday by Andre Louw, the managing director, that a second alluvial diamond joint venture had been secured in that country

Louw said ODM had entered an agreement with Transcoi, which holds the diamond mining rights to a 200km² area in north-eastern Angola. He said civil war estimates showed an alluvial diamond reserve of some 170 000 carats at an average grade of 0,5 carats a cubic metre along the Chicapa river in mining area F

The latest joint venture follows hard on the heels of an agreement late last year with Cimader in the Dala area.

Louw noted that the Transcoi agreement provided mining rights to an area that could be brought into production quickly. "Area F has such potential that diamond production from the area may be forthcoming towards the end of the current financial year to end-March 1999"

Louw said ODM would be responsible for developing the diamond potential of the area as well as for the funding (initially $30 000) of the project. In turn, ODM would receive a management fee of 5 percent of revenue and 55 percent of the profits.

CT (AR) 17/4/98

Namibian gem miner signs marketing deal

(216)

Vera von Lieres

Cape Town — Namibian Minerals Corporation (Namco), the Namibian-based marine diamond mining company, said yesterday it had concluded a three-year marketing agreement with IDC Holdings (IDC), a private diamond industry company based in London and Antwerp.

In the latest quarterly review, Namco directors said the company's diamonds would be valued by the Namibian government and shipped to Antwerp in cycles of about five weeks "In Antwerp, IDC will regrade and evaluate diamonds for sale at the highest market price in a method suitable to prevalent marketing conditions," they said

Jack Lunzer, the chairman of IDC, said the shape, purity and colour of Namco's diamonds were particularly attractive to manufacturers "We envisage no difficulty in establishing a strong demand for these diamonds "

Namco said during the quarter to February 28 1998 it had focused primarily on building up its mining operation off the coast of Namibia and on finalising marketing arrangements for its production goods

The first diamonds were recovered from the Koichab Prospect in the Luderitz Bay Concession during the quarter

"The NamSSol mining system was deployed on the margin of this high-grade deposit in thin sediment layers of approximately one or two metres," Namco said, adding that at least 95 percent of diamonds recovered were of gem quality

The company also said it had stopped its Angolan prospecting operation during the quarter owing to "operation experience and results indicating inadequate economic viability"

Ocean Diamond hits carat target

CT(MR) 21/4/98 (216)

MARC HASENFUSS

Cape Town — Ocean Diamond Mining Holdings (ODM), the marine gem company, met its revised annual production target by hauling 56 964 carats from its Namibian concessions, Andre Louw, the managing director, reported yesterday.

Market watchers calculated that the production figure, coupled with ODM's significant interest earnings, should translate into a fully diluted bottom line of 40c a share in the year to March 31 This would be roughly 20 percent better than the 33c a share earned the previous year

Louw said most of the year's production was delivered by ODM's principal mining vessel, the Namibian Gem, while smaller contributions were made the sampling operations of the Oceandia vessel and the subcontractor shallow-water operations

As regards diamond sales, Louw stressed that despite the decline in southeast Asian markets ODM was fortunate that its good-quality gem yields had not been affected as much as the lesser-quality producers.

"Although rough diamond prices dropped significantly from the highs achieved at the beginning of the year, the company received an average price of $189 a carat for its goods for the year," Louw said

Dan Gadd-Claxton, the operations manager at ODM, said that the company was hoping to commission a new sampling vessel in June. He estimated that the specialised vessel, which should be operational by year-end, could cost up to R50 million

Louw said ODM had already added new minable ore reserves at Halifax and Long Islands off the Namibian coast, which would maintain reserves at the same levels as the March 1997 financial year. He also reported progress in mining lower-grade ores profitably.

Louw believed a new articulated dredging arm would meet ODM's expectations in efficient precision dredging and seafloor cleaning

ODM closed unchanged at R4,35, with 9 200 shares changing hands on the JSE yesterday

Old Mutual to invest R560-m

By Sowetan Business Reporter

OLD Mutual Properties is to invest R560 million to redevelop the Menlyn Park shopping centre in Pretoria The ambitious redevelopment project is expected to be completed by 2000

The property company also proposes the addition of a lower ground floor level which will accommodate two new large space users and introduce a discount value component to the centre

According to head of Old Mutual Properties Ian Watt the shopping complex represents the insurance company's biggest property investment

The redevelopment will add an additional 38 000 square metres of prime retail space to the existing 71 800 square metres bringing total usable space to 110 000 square metres

"Old Mutual Properties believes in the enormous retail potential of the area and wants to capitalise on that by building a world class shopping centre to serve the needs of the community into the new millennium"

Significant redevelopment

Watt says the project is the latest in a number of significant redevelopment within his companies retail portfolio

These include the recent completion of refurbishment and extension of Bayside, Tableview, in Cape Town to the tune of R72 million, the R34 million Mutual Village refurbishment in Rivonia, Johannesburg, and the R45 million redevelopment of Vincent Park shopping centre in East London

Cavendish Square in Claremont is also near completion and it will cost R180 million

The new Menlyn Park, says Watt, has been designed by an award winning international group of architects, and is expected to attract a number of international brands through global marketing Major retail stores including Woolworths, Truworths and Foschini will be accommodated

Other tenants will include Hyperama, Edgars and CNA

De Beers rides out rollercoaster year

(216) Sowetan 23/4/98

By Shadrack Mashalaba

THE GIANT diamond group De Beers says a rollercoaster year in the global diamond market in 1997 will force the group to refocus its marketing strategy

In his chairman's report, Nicky Oppenheimer believes that 1998 will pose a serious challenge to the group's operations

He says the problems in the Far East have once again focused attention on the importance of the American market, which accounts for more than a third of worlds diamond value

In 1997 the American market saw encouraging growth of up to 8 percent in retail consumption of diamond jewellery, De Beers said, which counterbalanced the effects of declining currencies and a downturn in sales in Asia

"Despite the current slowdown, consumer attitudes in Japan remain positive, and De Beers is developing several new campaigns to take advantage of the eventual recovery in consumer confidence"

'It is clear that the current year will pose even greater challenges before the economic storm in South East Asia blows itself out How the industry responds to these challenges will determine the contours of the diamond world for years to come," says Oppenheimer

De Beers chairman Nicky Oppenheimer.

De Beers' headline earnings for the year which ended December 31, was up one percent at R5,25 billion The dividend was at 102,8 cents

The combined results represent the activities of both De Beers Consolidated Mines and De Beers Centenary AG

The company's diamond assets include diamond mines, synthetic diamond and abrasive products manufactured by Cape Town-based De Beers Marine, which operates as an offshore contractor, and the company's interests in the Central Selling Organisation (CSO)

According to Oppenheimer, the business outlook was improved in October last year when, after protracted negotiations with Russian-based Almazy Rossii–Sakha (Alrosa), a new trade agreement under the (CSO) – the single-channel marketing agency – was signed

De Beers and Alrosa are the world's two major diamond producers

The group says it will spend R1 billion on the promotion of diamond jewellery around the world this year The group also says that it will continue exploration of world-class diamond deposits

According to Oppenheimer, his company wants to play its full part as a major investor in South Africa's future De Beers local-based mines increased production marginally during 1997 to 9 558 582 carats The 1996 figures were 9 386 177

De Beers cuts sales in face of demand slump

(216)

A downturn in orders from Japan and an oversupply have hit sales, writes KENNETH GOODING

ST(BT) 26/4/98

DE BEERS cut its diamond sales by half in the first quarter of this year, analysts suggest, and the SA group is expected to continue this policy for another three months

De Beers, which accounts for more than 60% of the world's rough, or uncut, diamond trade, has been attempting to compensate for a substantial downturn in demand from Japan, the second-biggest market for polished diamonds, and an oversupply of polished stones that emerged after the Asian crisis took hold in 1997

Rough diamonds worth only US$800-million were released to traders at the first three-monthly "sight" or sale by De Beers' London-based Central Selling Organisation, according to the CRU International consultancy group This compares with $1 8-billion in the same months of 1997

Mark Cockle, executive editor of CRU's Diamond International publication, said the CSO's sales were at record levels in the first half of last year, making the contrast greater

"I expect the cuts to last until July and there might be a return to more normal levels in August We could see a reversal of the traditional pattern, with the CSO's second-half sales revenue being higher than in the first half," Cockle said

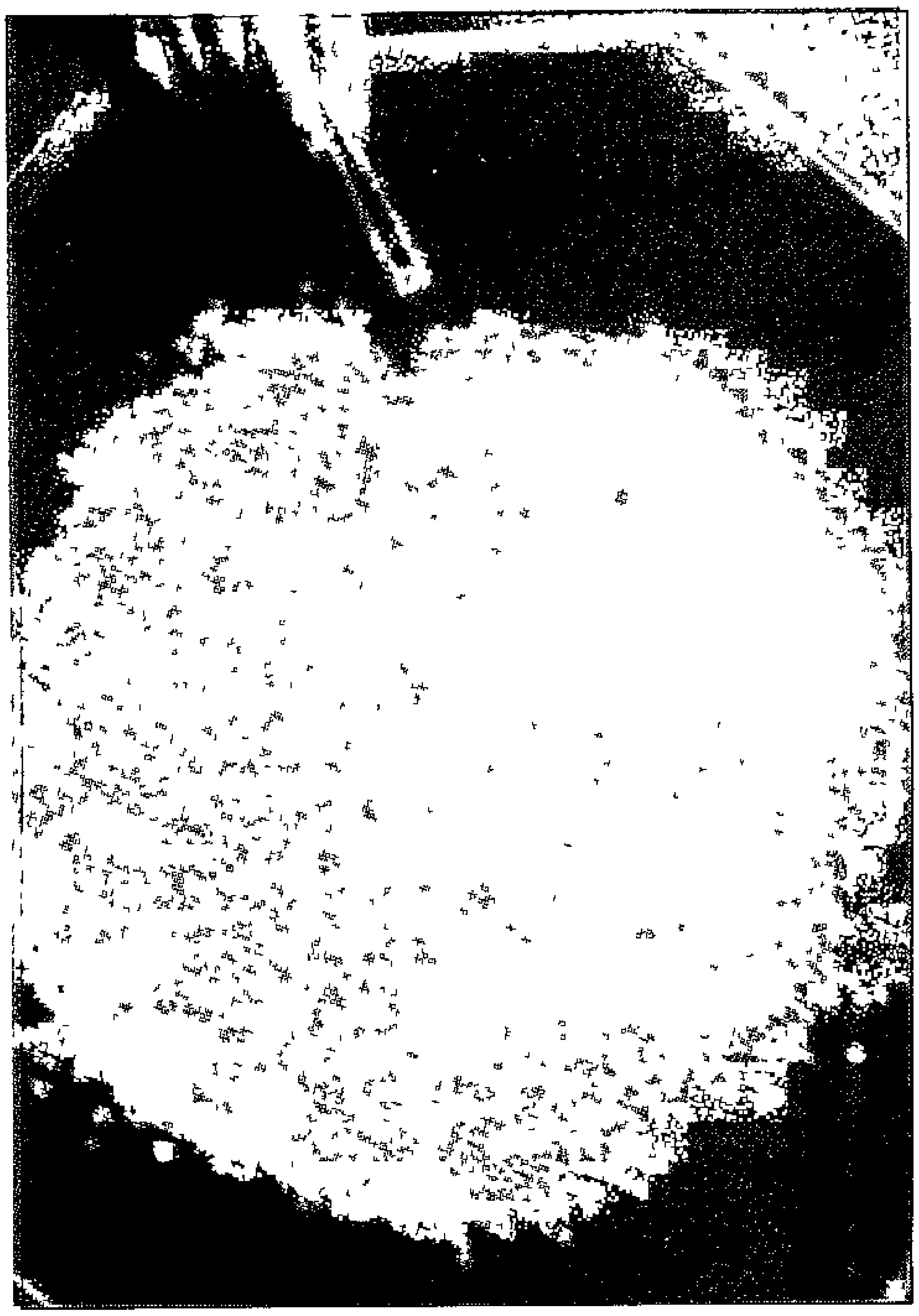
CSO president Anthony Oppenheimer would not reveal the exact extent of the sales cuts but admitted they had been substantial and were having the right effect

"Confidence is returning to the trade," he said This confidence would take time to be reflected in polished diamond prices, however, because too many traders were concentrating on the US market

This was not only because it was the biggest diamond retail market, but also because it was the only one showing good growth — 8% in 1997 and nearly 8% so far this year

Oppenheimer promised the CSO would continue to hold back rough diamonds from the market until it felt full confidence was restored

He recalled that Japan's imports of polished diamonds had fallen by 25% last year from their 1996 levels and were at a similarly reduced level this year "I can't see the Japanese market recovering for a couple of years," he said



FICKLE STONES . . . a reduction in the number of diamonds put up for sale is restoring balance in the market

Nevertheless, other factors were positive

In particular, uncontrolled rough diamond exports from Angola and Russia, which had destabilised the market in previous years, had just about dried up

Russia, one of the world's biggest producers, was rigidly sticking to the terms of the 13-month contract it signed in October last year, when it rejoined the rough diamond cartel organised by the CSO

Russia and the CSO would meet next month and consider whether to roll forward their contract for another year, said Oppenheimer

In Angola, the Unita forces had moved away from some of the diamond areas and these were not being worked now, even by individual diggers Heavy rains had also kept down Angola's diamond production

— *Financial Times*

MINING *Marsfontein heirs seek interdict against minister*

Maduna defended in mine row

CT (BR) 28/4/98 (216)

FRANK NXUMALO

Johannesburg — The minerals and energy department denied yesterday that Penuell Maduna, the minister, was backing SouthernEra, a Toronto-listed company, in its efforts to secure diamond rights at the Marsfontein farm in the Northern Province

Jan Bredell, the deputy director-general at the department, said recent local and Canadian media reports that the minister was taking sides in the dispute were "based on an unfortunate distortion of facts"

Bredell said the dispute started last December. The Canadian company, in a joint venture with a locally based mining house, Randgold, jointly applied for the transfer of the diamond rights, which were then registered in the names of four people who died 30 years ago

He said the minister then started processing the application in terms of section 17 of the Minerals Act, which provides for a transfer of rights to a new applicant two years after the death of the holder or holders and a valuation.

Bredell said while the minister was processing the application he was approached by people who claimed to be heirs to the estate.

He said the heirs told the minister they had "an interest in the matter" and applied to the high court for an interdict against the minister

However, Maduna is said to have indicated his intention to oppose the interdict.

"SouthernEra and the heirs are still involved in legal proceedings, and it would therefore be totally inappropriate for the minister and the department to take sides in the matter," Bredell said

CONTROVERSY *Penuell Maduna is alleged to support a foreign company's bid for local mining rights* PHOTO JOHN WOODROOF

Gem-smuggling pigeons knock profit

ET (PR) 30/4/98 (216)

Ncaba Hlophe

Johannesburg — Alexkor, the state-owned diamond mine, and racing pigeon clubs in Alexander Bay do not yet know how they are going to rid the Northern Cape town of the birds, which are being used for smuggling uncut stones.

Thian Combrinck, the mine's chief executive, said this week the mine wanted to ban all pigeons in an attempt to curb the spiralling diamond theft which has resulted in production losses of up to 20 percent.

But it was still not clear how the problem could be solved as shooting the birds was not a palatable option, he said

The mine would meet the six registered clubs soon to broker a deal, which was expected to include compensation for losses

The clubs said although they were not opposed to the idea, they were slightly nonplussed because the mine had provided them with the initial start-up money

Combrinck said the mine was already confiscating unregistered pigeons, which were being handed over to the police. But a local police sergeant, who did not wish to be named, denied this He said police knew of the problem, but had not received any birds

Combrinck said· "We hope our meeting with the local club owners will help us decide on how exactly to handle the ban "

Koos Coetzee, the chairman of the clubs, said the clubs owned at least 900 "legal" pigeons in the area, which were worth more than R500 000

"We will still have to meet with the mine to discuss their plan to ban the pigeons, but we will close down the clubs if the mine offers reasonable compensation," Coetzee said

He said it was ironic as the mine had helped the racing clubs to start operations, to the tune of R8 000, but was now campaigning to close the pigeon clubs down

He said the pigeons were just a symptom of a huge diamond theft syndicate's operations, and these were unlikely to cease, even after the outlawing of the town's pigeons

Combrinck said the mine would spend more than R24 million to upgrade its security system as part of its strategy to curb the theft of uncut stones

It was on course for privatisation, and the government had already invited technical advisers to oversee the introduction of contracted management consultants

The advisers would form part of a government team and would assist in the evaluation of bids and in the implementation of the exploration programme, he said

Plans were also under way to transfer the mine's social operations, such as schools and hospitals, to the Northern Cape government and split the mine into four separate operations

UDIAN

CT (BR) 2/4/96

De Beers' ties with Russia unaffected

(216)

[illegible]

Namibian gem deal with Russia shocks secretive industry

(216) (~~[illegible]~~)

ARG 3/4/98

Windhoek – A Russian diamond mining company has been given permission to operate in Namibia in a deal that has sent shock waves through the country's highly secretive diamond industry.

Namibian President Sam Nujoma signed the agreement with his Russian counterpart, Boris Yeltsin, in Moscow this week

The diamond industry in Namibia, the world's fifth largest producer of the gems, is dominated by Namdeb, a joint venture between South African mining cartel De Beers Centenary AG and the Namibian government

Now, under the pact signed during Mr Nujoma's first official visit to Russia, the Almazy Rossii-Sakha mining giant will be able to prospect for and mine diamonds in Namibia

Mr Nujoma, asked if the deal with Moscow would not sour relations with De Beers, responded "We will sell our diamonds where we get a good price "

Further details of the Russian deal have yet to be spelt out

Officially, Namdeb is playing down the significance of the Moscow agreement Namdeb corporate affairs manager Hilifa Mbako, said "Namdeb respects the right of the president to negotiate with other producers."

However, a diamond industry insider said the move was bound to have a negative effect on the relationship between the government and De Beers

The well-placed source said the Russian agreement appeared to be an attempt "to squeeze De Beers Marine out of the scene "

De Beers Marine, owned by De Beers, is contracted by Namdeb to carry out all its seabed mining

The Moscow pact raises the possibility that Almazy Rossii-Sakha will take over a large portion of Namibia's offshore diamond mining

Namdeb was set up in 1994 to mine the country's diamond fields in the southwest of the country, and on the seabed near Namibia's border with South Africa

Details of the agreement between Namdeb and the government have never been made public, but it brings millions into state coffers through high mining taxes and royalties

According Namibia's 1998-99 budget, the government received diamond royalties of Nam$204-million in the previous financial year, while diamond mining tax raised Nam$90-million

The joint agreement between the government and De Beers is set to last for 25 years, but its terms are to be reviewed in 1999

The Moscow pact could strengthen Namibia's hand in next year's negotiations with De Beers, in which De Beers Marine's contract is also expected to feature

Neither Namdeb nor its co-owners De Beers were consulted about the deal with Russia, Namdeb chairman Leake Hangala, said – Sapa-AFP

Namibia's Russian diamond deal could unsettle De Beers

(216) CT (MR) 3/4/98

Tabby Moyo

Windhoek — A diamond agreement entered into between Namibia and Russia this week has cast a dark shadow on the future of the 50-50 partnership the Namibian government has with De Beers, the mining company

Russia controls a significant portion of the world's diamond industry and consistently seeks to strengthen its hand against the De Beers' monopoly over most of the world's diamonds

Namibian diamond industry insiders said the entry into Namibia by Almazy Rossii-Sakha, one of the biggest diamond companies in the world, would certainly not augur well for De Beers which, together with the Namibian government, formed Namdeb in 1994

De Beers has remained tight-lipped over the new development, saying the details of the agreement signed by President Sam Nujoma and his Russian counterpart, Boris Yeltsin, in Moscow on Tuesday, were still unknown to them

It appeared the government did not consult either Namdeb in Windhoek or De Beers in South Africa before signing the agreement

The agreement doesn't prevent Namibia from having an accord with other countries

The South African company and the Namibian government entered into a 25-year partnership that is subject to review at the end of next year On his return to Namibia from Moscow on Wednesday evening, Nujoma, responding to a question on whether the diamond deal would affect the government's relationship with De Beers, said: "We will sell our diamonds where we get a good price, it is a process of give and take"

Leake Hangala, the Namdeb chairman who was instrumental in drafting the agreement between De Beers and the government, said he could not comment on the implications of the agreement with Moscow as he was not aware of the provisions of the pact

"I have not seen the agreement therefore it would be premature for me to comment But I think nothing will be done which is not in the interest of the Namibian diamond mining industry" He pointed out that there was nothing in the agreement with De Beers that prevented the Namibian government from having an agreement with other countries

The agreement entered into with the Russian government was aimed at, among other things, helping Namibia to diversify its contacts in the diamond mining sphere

Under the agreement, Almazy Rossii-Sakha, which monopolises the diamond industry in Russia, would help Namibia prospect and mine diamonds

The two countries might also consider joint efforts in the cutting, polishing and marketing of diamonds

A source said the agreement appeared to be designed to undermine the De Beers cartel

An industry source said the agreement could be damaging for Namibia as it appeared to be designed to undermine the De Beers cartel — of which the government was now a part through its half ownership of Namdeb

The source pointed out that Namibia gained through a regular dividend payment from Namdeb, which amounted to many millions of dollars The agreement is, however, expected to be received well by the Mineworkers' Union of Namibia, which has accused De Beers of stripping Namibia of its diamond wealth, with few benefits going to the people.

The union has criticised the government's partnership with De Beers It said the partnership had only perpetuated economic injustice within the diamond industry — Independent Foreign Service

Russia, De Beers at odds again

CT (MR). 6/4/98 (216)

Sebastian Alison

Moscow — Russia was keen to expand its diamond production operations in Africa even if it caused friction with De Beers, the head of Russia's largest diamond producer said last week

Vyacheslav Shtyrov, the president of Almazy Rossii-Sakha (Alrosa) said the company was already involved in joint ventures in Angola Asked if Alrosa would like to expand in Africa, he replied. "Of course"

He said Alrosa, which produces almost all Russia's diamonds, wanted to increase its activities in Angola and to pursue opportunities in Namibia

De Beers dominates global diamond trading, and has a trade deal with Russia under which Russia sells some of its production to De Beers The possibility of a row between the South African and Russian diamond industries, respectively the largest and second largest in the world, became apparent earlier last week following a deal between Russia and Namibia

During an official visit by Namibian President Sam Nujoma to Moscow, the two sides signed a deal on co-operation in the Namibian diamond industry

At present, the Namibian industry is dominated by Namdeb, a joint venture between the Namibian government and De Beers

Shtyrov said Alrosa was extremely interested in Namibia after the company's successful experience in Angola, and that relations between the Soviet Union and the Russian Federation and Namibia had been historically good.

But he said no activity was likely to start soon "We haven't signed anything concrete which might let us start work tomorrow." The deal simply meant Namibia and Russia could help each other in the diamond sector

"But whether or not these projects will begin will depend on many circumstances," he said

The Russian and South African industries have an unusual relationship based both on mutual need and antagonism

De Beers recently formed a joint venture to tap the Lomonosov deposit in Russia's far north

"I think De Beers is disturbed by our presence in Africa, and they're alarmed by this agreement but I'm sure this won't affect our agreement with them

"Of course it's a cause for mutual bickering and irritation," he said, but that the two were trying to compromise with respect to trade relations and relations concerning resources — Reuters

Warning bells for De Beers as Russia signs major diamond pact

CT. 14/4/98 (216)

MOSCOW: Russia signed a pact with Namibia this month on diamond prospecting, mining and cutting operations — serving notice to De Beers that it intends breaking the South African company's grip on regional trade.

Namibia ranks as one of world's major diamond-mining countries, alongside Botswana, Russia, South Africa, Angola, Australia and Zaire, and most of its diamonds are mined by joint ventures between the Namibian government and De Beers.

The agreement signed on April 1 gives Russian businesses new and direct access to the huge diamond deposits of Southern Africa, and builds on the Russian joint venture operations in post-war Angola. Russian companies are to undertake geological prospecting in Namibia, and to later develop the deposits.

Russian professionals will also help Namibia establish a national cutting industry and will train Namibian diamond-cutters.

One of the first concrete results of the agreement, signed by Namibian President Sam Nujoma during a visit to Moscow, will be the formation of a joint venture, to be called Arsan, involving Almazy Rossii-Sakha (Alrosa), Russia's biggest producer and exporter of rough diamonds.

Alrosa president Mr Sergei Ulin insists that Russia poses no threat to De Beers, but rather that the deal is "the highest form of recognition for Russia's achievements in entrepreneurship and specifically in diamond-mining".

He says co-operation with Namibia will enable Russia to develop its diamond mining and will also help with the restructuring of Russia's own diamond industry.

However, there is little doubt that Russia is encroaching on the De Beers diamond monopoly. This began at the end of last year with the signing of a trade agreement between Alrosa and De Beers on the export and sale of Russian natural diamonds.

This essentially ended De Beers' tight hold on the world diamond trade, giving Russia joint control over its regulation.

The deal was signed only after protracted and sometimes acrimonious negotiations. Russia will sell to De Beers uncut diamonds worth at least R275 million every year. Priority will be given to supplying Russian diamond-cutting enterprises with uncut diamonds that will ensure profits after cutting.

Alrosa vice-president Mr Anatoly Kozeyev says the venture will explore alluvial deposits along the Orange River, develop off-shore diamond fields and prospect for other minerals in Namibia. It also plans to build factories to cut and polish Namibian diamonds and eventually establish jewellery manufacturing.

The idea to form the joint venture was conceived two years ago, Kozeyev says, but Alrosa had to wait for the Russian Central Bank to license Alrosa to remove the required capital from Russia to pay its share of the joint venture's costs and the initial geological work. He believes the new agreement will speed up matters.

Talks on the new agreement began when the old one, signed by the old USSR in 1990, expired at the end of 1995. The main bone of contention was Russia's desire for more independence on the world diamond market, which De Beers saw as a threat to its Central Selling Organisation — the single outlet for world diamond sales.

In the event, Russia got what it wanted. However, by then, Alrosa already had a foothold in Africa with its part in the joint venture developing the Katoka diamond field in Angola.

The Katoka Mining Company was set up in 1992 but the project did not begin in earnest until 1995 because of the civil war in Angola. It has so far absorbed R450 million of investment, of which Alrosa has raised R400 million.

The feasibility study for the project was drawn up by the Yakutimproalmaz institute of Yakutia, in Siberia. The venture team plan to be able to handle 1,6 million tons of diamond ore a year by the end of this year at an enrichment plant in Katoka.

"Construction started in October 1996 and the plant turned out its first diamonds last July," Kozeyev says.

It processed more than 100 000 tons of ore in December 1997 and aims at a projected capacity of 133 000 tons of ore a month.

Proceeds from the sale of diamonds produced during the first five months were 50% up on projected levels, adds Kozeyev.

The diamonds are sold by Katoka Ltd, which has split its founding capital of R146 million four ways in line with a contract between its four founders.

Alrosa (32,8%), Angola's Endiama UEE (32,8%), Brazil's Odebrecht Mining Services (16,4%) and the Netherlands' Daumonty Financing Company (18%).

The contract stipulates that 90% of the diamonds produced be bought by Alrosa, which can then sell them at its own discretion. De Beers, meanwhile, is counter-attacking.

While Alrosa is moving into Angola and Namibia, De Beers eyes prospects in Russia; last month, it signed an agreement with the Soglasie company, winning the rights to develop the Lomonsov diamond deposits in the Arkhangelsk region of north-west Russia.

These are thought to contain R60 billion worth of precious stones. Soglasie owns a controlling stake in Severalmaz, which has the licence to develop the field.

De Beers beat Alrosa and Australia's Ashton Mining to the rights to exploit the field. — Sapa-IPS

De Beers intrusion may sink SouthernEra's pipe dreams

A pact between De Beers and the self-proclaimed heirs of diamond rights on a Northern Province farm threatens to shatter the future of Toronto-listed diamond miner SouthernEra, writes mining reporter David McKay

BD 20/4/98 (216)

LAST week De Beers stepped into a dispute between SouthernEra and 29 people claiming to be heirs of the original owner of Marsfontein, a farm with a valuable — if short-life — diamond pipe

It is understood that De Beers offered the heirs about R70m for the mineral rights In terms of the agreement, De Beers will take transfer of the mineral rights once the legal issue with SouthernEra has been resolved

Although De Beers first examined and then walked away from the Marsfontein farm in 1987, it now says small scale joint ventures are part of its business and would like to consolidate the Marsfontein discovery with other prospects it has on its books

But SouthernEra chairman Christopher Jennings, an SA miner instrumental in developing the diamond-rich fields of Canada's Northwest Territories, doubts the motives of the diamond giant

He suspects De Beers is simply trying to rub out competition and is acting in the knowledge that a protracted legal battle and the possible loss of the Marsfontein farm could sink his company

The disputed diamond resource, the M1 pipe, is critical to SouthernEra's future The company's bulk sampling and drilling on the pipe outlined a resource of 600 000 tons, grading about 200 carats per 100 tons

Jennings confirms the resource is a "sweetener" One analyst's report estimates that the M1 is a one-year bonanza worth about $100m — optimism which is shared by SouthernEra, which decided to build a new 2 000 ton-a-day plant on the nearby farm Modderfontein to process the material from M1

Crucially, the M1 pipe has the potential to provide the cash required for the development of SouthernEra's other diamond prospects, including fissure mines at Klipspringer and the Camafuco-Camazambo kimberlite pipe, an Angolan project in which SouthernEra holds a 51% interest

The litigation over mineral rights on the part of the Marsfontein containing M1 was first announced on January 15 At the time, the heirs of the original owners were transferring their claims into a corporate entity called NGS Minerals.

SouthernEra and Randgold were to seek expropriation of the mineral rights at a hearing in Pretoria last week However, immediately before the hearing, counsel for NGS informed SouthernEra's lawyer they had concluded a prospecting contract for Marsfontein with De Beers on April 9

Analysts say De Beers has become active in joint ventures and finance arrangements with junior exploration companies such as Mountain Province in North Western Territories, Troymin in Alberta's Buffalo Hills and TNK Resources in Botswana

Meanwhile, SouthernEra is negotiating bridging finance with SA banks of up to $20m to help it to continue the legal battle with De Beers.

SouthernEra's investors are clearly alarmed, with the company's share price sliding to C$7 on the Toronto Stock Exchange early last week It recovered to around C$9 on Friday.

Outcome of diamond dispute lies in government's hands

THE battle between Toronto-listed SouthernEra and heirs to diamond-mining property prospected by the Canadians sends ominous signals to other offshore mining firms wanting to invest in SA, says mining reporter David McKay (216)

GOVERNMENT says it will not take sides in a legal dispute between Canada's SouthernEra and NGS Minerals, the enterprise claiming ownership through inheritance of a diamond-rich farm already prospected by the Canadian mining company

However, deputy director-general Jan Bredell of the minerals and energy department said government was not sitting on the fence

He said government had a part to play in the destiny of the mineral rights, located on the Marsfontein farm in the Northern Province

Bredell said SouthernEra had asked the minerals and energy department to implement section 24 of the 1991 Minerals Act, in terms of which the Marsfontein farm could be expropriated by the state

It now remains for Minerals and Energy Minister Penuell Maduna to decide whether such a step would be appropriate

Analysts believe the implication of Section 24 is akin to the philosophy of a recently published green paper in which a new mineral policy is suggested The main thrust of the proposed mineral policy is that the state gets "the final say", particularly in handing over the right to mine specific mineral rights

According to Bredell, had the green paper been in effect, the dispute between the heirs and SouthernEra might have been pre-empted

SouthernEra was not the first mining company to prospect Marsfontein but it was first in deciding the resource was viable

It invested money in prospecting and has said it spent time unsuccessfully seeking out possible heirs to the farm

The aim was to compensate the heirs while SouthernEra developed the area

The heirs eventually emerged but only after SouthernEra was ready to push the button on mining the area After several months, the heirs decided to house their business interests into NGS Minerals and now appear to have gained control of Marsfontein

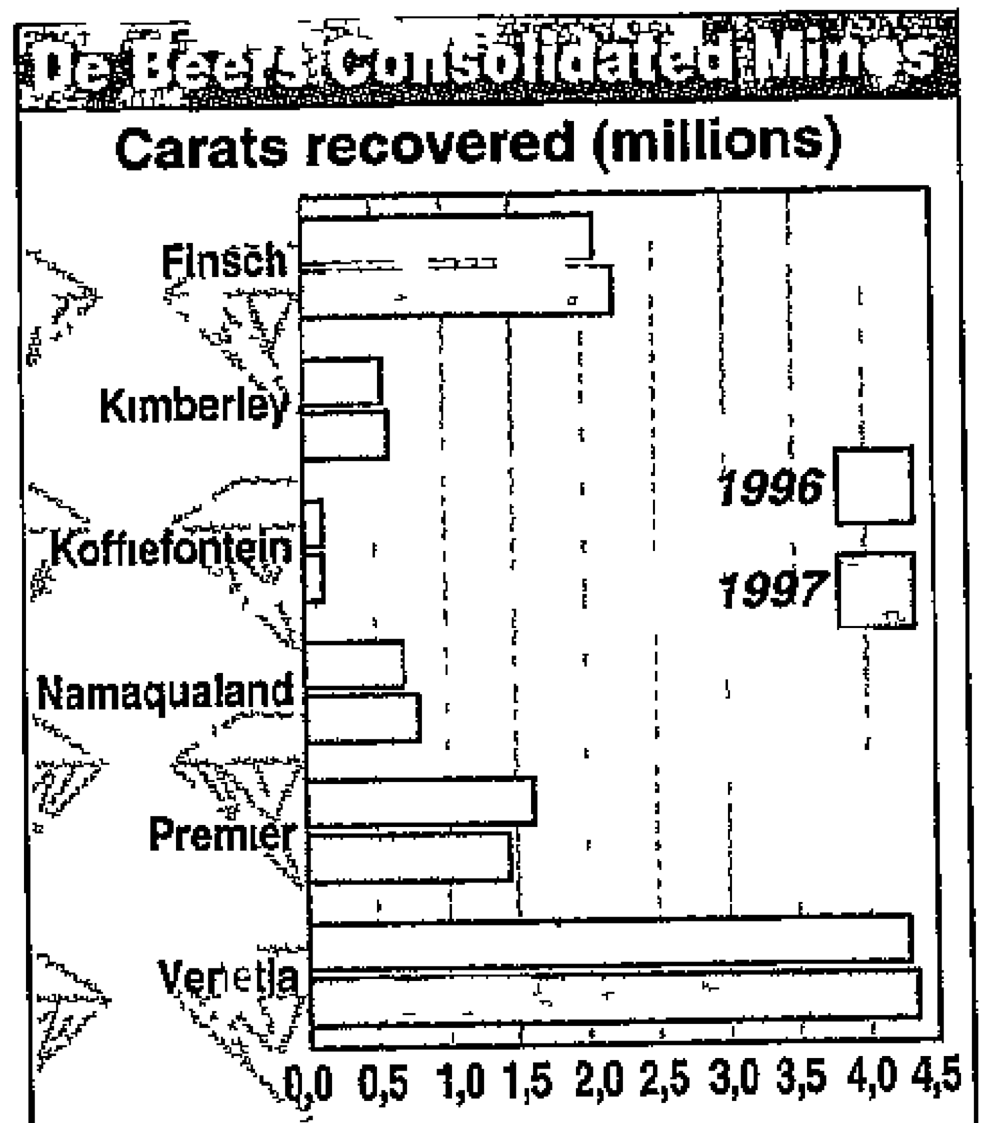
Some analysts believe this is a pity

The Marsfontein diamond resource was effectively sterilised until SouthernEra decided to mine it

It is unclear whether the heirs had any intention of mining the prospect in the past

A complication is the involvement of diamond giant De Beers

It is understood that De Beers has lodged an application with the minerals and energy department to prospect the Marsfontein farm itself



Graphic KAREN MOOLMAN Source DE BEERS

What is certain is that De Beers has already agreed to pay NGS Minerals for the mineral rights should NGS successfully rebut the claim of SouthernEra that the land is theirs.

In offering to buy the land from the heirs, for a sum thought to be between R70m and R75m, De Beers was making the struggle of the heirs a lucrative endeavour, analysts said

However, the Marsfontein farm is comparatively small business to De Beers

De Beers produced 9,6-million carats from its SA mines in its last financial year and 50% of the world's gem diamonds by value, both from its own mines and in partnership with the governments of Botswana, Namibia and Tanzania. BD 28/4/98

In comparison, the section of the Marsfontein farm under dispute comprises mineral rights estimated to yield between only 1-million to 2-million carats over its entire life.

For its part, De Beers says small joint ventures are part of its business strategy and it has already concluded a number of joint ventures for small pockets of diamonds

There is, however, a minor irony in De Beers' involvement The loss of the mineral rights by a foreign-based investor, which had already spent money prospecting the rights, does nothing to instil confidence in SA among other potential offshore miners

The effect of De Beers' involvement in the issue is at some variance with chairman Nicky Oppenheimer's statement in the group's latest annual report, in which he said the group wanted to be a "constructive player in the economic resurgence of Africa"

DE BEERS

Walking softly with the big stick

fm 1/5/98

Oppenheimer's tough message to producers (216)

- **ACTIVITIES** *Mines gem and industrial diamonds and through the CSO controls about 75% of world diamond production Has significant stakes in Anglo American, Minorco and Amic*
- **CONTROL** *Anglo American Corporation 32,5%*
- **CHAIRMAN** *N F Oppenheimer MD G M Ralfe*
- **CAPITAL STRUCTURE** *380,2m ords Market capitalisation R49,4bn*
- **SHARE MARKET** *Price 13 020c Yields 3,9% on dividend, 9,6% on earnings p e ratio, 10,4, cover, 2,5 12-month high, 17 800c, low, 8 600c Trading volume last quarter, 28m shares*

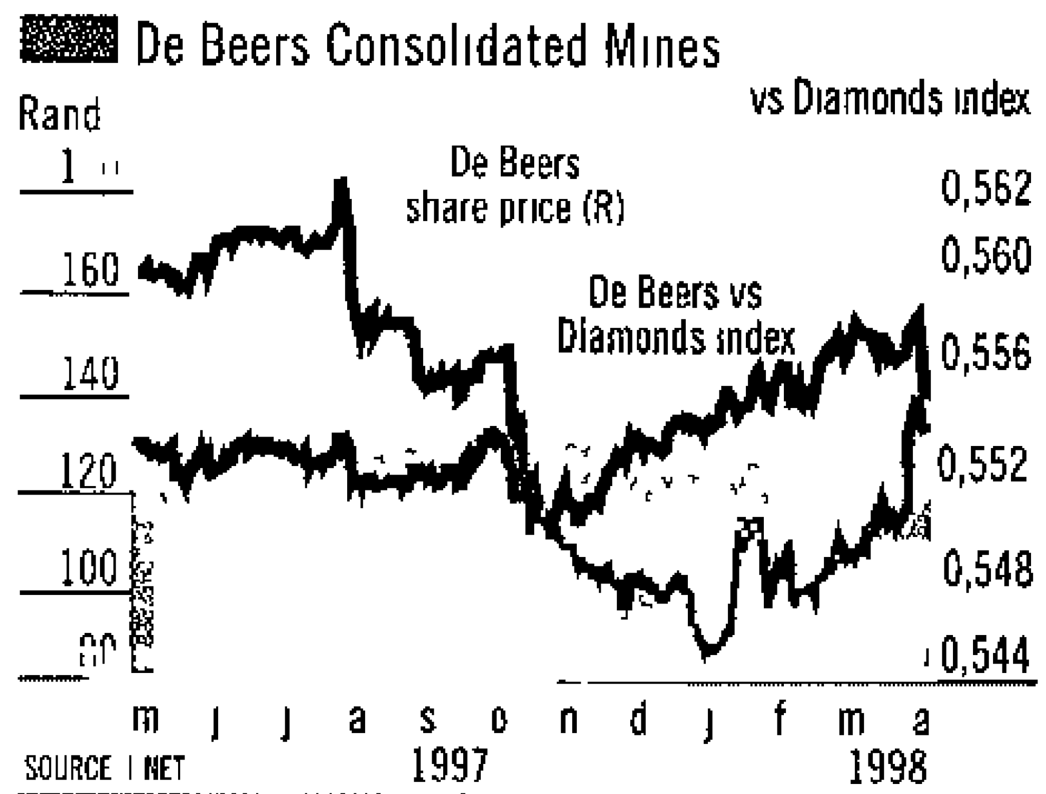
Year to December 31	'94	'95	'96	'97
Investment income (Rm)	692	805	980	1 061
Diamond Stocks ($bn)	4,4	4,7	4,7	4,4
Diamond Acc (Rbn)	2,2	2,7	3,4	3 9
Attrib Earnings (Rbn)	2,0	2,3	3,5	2,8
Equity Earnings (Rbn)	2,9	3,6	5,7	5,6
Equity Earnings (c)	769	938	1 378	1 476
Headline Earnings (c)	n/a	n/a	1 147	1 252
Dividends (c)	299,6	339,1	480,7	500 2
Tangible NAV (c)	16 408	15 590	18 489	17 614

With an Oppenheimer back at the helm there are big changes under way at De Beers The core business message, however, remains the same — market your diamonds through the Central Selling Organisation (CSO), or else

This is the blunt interpretation of the *FM*, because De Beers would never express it publicly in those terms But the message is there — between the lines — in the maiden review from new chairman Nicky Oppenheimer, who took over from Julian Ogilvie Thompson on January 1

"It is De Beers' hope," says Oppenheimer, "that recent entrants in the field will recognise the sense of single-channel marketing and will not be tempted to undermine the very factor — predictable and stable prices — which attracted them into the industry in the first place, nor that they will commit the cardinal error of assuming that De Beers will act against its own interests and the interests of its shareholders in a competitive world

"The experience of the past few years at the bottom end of the market where three major producers competed for market share illustrates the dangers inherent in that assumption "



Oppenheimer is referring to De Beers' wrath when Australian diamond producer Argyle decided to quit the CSO in 1996

The bulk of Argyle's output consisted of low-quality gem diamonds, known as "Indian goods" because most of them are cut in India, where the labour costs for this skilled work are the cheapest in the world

In response, the CSO flooded the market with Indian goods, causing prices to fall to the point where one diamond producer quipped that the gems were threatening to undercut the market in cubic zirconium

The reason for Oppenheimer's warning isn't hard to discern the diamond market faces hard times To make matters worse, a number of major new mines are about to start production Two of them — in Canada — are controlled by international mining giants RTZ and BHP, meaning that De Beers could face its greatest challenge yet in maintaining the cartel's iron grip

"It's going to take more than us waving an iron fist at BHP to convince them what to do," said the De Beers chairman earlier this year "We have to persuade people that it makes sense financially and from a security point of view to sell their diamonds through a single channel, as we have in the past "

But, just in case persuasion doesn't work, De Beers has already put the groundwork in place for "Plan B" That will involve differentiating the market into two kinds of diamonds — those marketed through the CSO and others

It has developed a hi-tech method of "branding" its diamonds with the De Beers logo in such a way that it is invisible to the

Nicky Oppenheimer *In every aspect De Beers remains the ultimate authority*

216

FM

1/5/98

naked eye and in no way affects the quality of the stone The technique can be used as a competitive marketing tool if awarded only to the stones marketed by the CSO

Says Oppenheimer "Those in the industry know that in every aspect of diamond mining and marketing, including its unique knowledge and skills in sorting, classification and pricing, De Beers remains the ultimate authority "

These are medium-term issues What's on the mind of investors is De Beers' short-term prospects in the financial year to end-December

At first glance, the prospects are grim because of the economic crisis in Japan and southeast Asia Taken together, these markets constitute 40% of demand for retail diamond jewellery

De Beers has cut back sharply on the amount of stones it offers its customers at the "sights" through which the diamond trade buys rough diamonds from the CSO

The aim is to clear out the excess inventories of rough and polished diamonds that have been hitting profit margins and threatening to destabilise the trade. De Beers MD Gary Ralfe estimates that in January stocks held by the trade were 15%-20% too high

This action must hit De Beers earnings, and maybe even its dividend, in the current financial year But recent moves in the share price indicate that investors believe the impact will not be that serious

From a low of R86 in January, the shares have rebounded to around R130 now despite doom and gloom warnings by some analysts in January that the share could drop further **Brendan Ryan**

ANALYSIS

De Beers flexes muscles in Canada

BD 7/5/98 (216)

De Beers' reputation has been somewhat sullied by the SouthernEra Resources battle, writes Washington correspondent **Simon Barber**

THE battle between Toronto-based SouthernEra Resources and NGS Minerals over diamond rights on Marsfontein farm in Northern Province is causing rude things to be said about "bully" De Beers in the Canadian mining fraternity

However, George Burne, director of De Beers' newly opened office in Vancouver, says he does not believe the controversy will hamper the company's ability to find local partners as it scrambles to make up lost ground in the chase for Canadian diamonds.

SouthernEra has openly accused De Beers of being behind NGS, a company formed by a group claiming to be the heirs to Marsfontein mineral rights

The heirs came forward last December as SouthernEra was about to start mining on the farm, and then sold the rights to De Beers for a reported R70m

Canada is widely projected to account for between 6% and 10% of world diamond output within the next several years as projects in kimberlite-rich regions of the Northwest Territories just short of the Arctic circle go into production

The $800m Ekati mine, a joint venture between Kelowna, British Columbia-based junior Dia Met Minerals and BHP Diamonds, a division of Australian heavyweight Broken Hill Proprietary, is scheduled to open in October and put stones on the market by the end of the year

Analysts see Ekati's production as being equivalent to 3% of world output, which would put it on a par with De Beers' Venetia mine in the Transvaal

A second and potentially even larger Northwest Territories mine, Diavik, owned by junior Aber Resources and Rio Tinto, is scheduled to come on stream by 2002

De Beers and its wholly owned Toronto unit, Monopros, have been prospecting in Canada for 30 years and have identified more than 100 kimberlites in that time Yet, as Burne put it in an interview last week, "we have not been particularly lucky"

Although the first discoveries in the Northwest Territories were made by De Beers, according to Burne, the serious detective work — and stake-claiming — was left to supposedly eccentric geologists like Charles Fipke, founder of Dia Met

When they needed partners with the capital and expertise to develop what they found, they turned not to De Beers but to the likes of Broken Hill and Rio Tinto "That put us behind the eight ball," Burne said

It also caused De Beers to lose its disdain for the juniors, whom it is now actively courting Burne did not think bad press from the SouthernEra affair would get in the way "Our partners on the whole speak very highly of us "

De Beers has interests in several projects, all in much earlier stages of development than Ekati and Diavik The most advanced is a joint venture with Mountain Province Mining, not far from the Dia Met-BHP and Aber-Rio Tinto properties De Beers has the right to earn up to a 60% interest

Mountain Province announced last month that test samples from four kimberlite pipes in its claim had been sent to SA for evaluation It said De Beers had previously estimated one pipe to contain 15-million tons of ore reserves "with a potential revenue of $82,50 per ton based on modelled average carat value"

Burne warned the figures were "soft", but Canadian analysts like what they are hearing about Mountain Province. "It is one of the better properties," said one

Near the Mountain Province claim, De Beers is partnered with Gerle Gold It also has joint exploration ventures with Troymin Resources in Alberta, with Kensington Resources and a German firm, Uranetz, in Saskatchewan and with Dia Met in Greenland

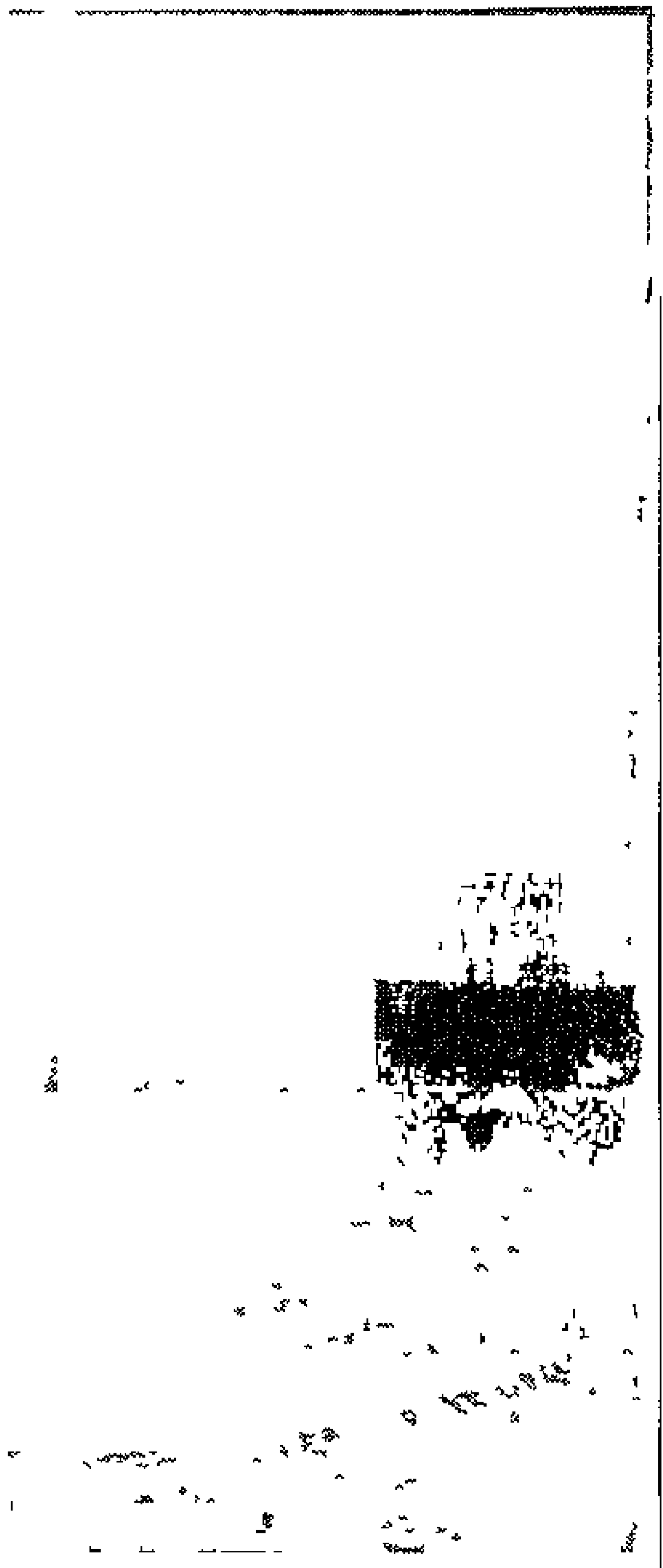
Dia Met and BHP are playing hard to get on whether they will market via De Beers Gerald Prosalendis, Dia Met's manager for investor relations, said BHP has already opened an office in Antwerp "to co-ordinate sales"

He said Broken Hill had "a large asset base" in the US, where De Beers remains under the threat of antitrust proceedings It therefore had qualms that dealing through De Beers could lead to "possible exposure to the US justice department"

Burne, while not dismissing BHP's worries out of hand, said "there is a continuing debate between us and BHP We have one opinion and they have another."

BHP announced last week that it would establish a sorting and valuation facility in the Northwest Territories, and would sell stones to local cutters and polishers in the event that the government managed to attract them to the remote, inhospitable region

In return, the authorities had agreed "not to impose other demands or to pursue additional taxes" on the Ekati mine



De Beers conducting explora

...port base is said to be strongest in senior ranks.

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Sigcau launches probe into contracts awarded by Alexkor management

(21b) BD 18/5/98

Reneé Grawitzky

PUBLIC Enterprises Minister Stella Sigcau has launched an investigation into possible irregularities surrounding contracts awarded by the management of Alexkor.

The state-owned Northern Cape diamond mine, which faces privatisation once the company has been restructured, will be run by a firm under a management contract Mine activities such as agriculture will be developed for the surrounding communities

A representative from Sigcau's office has been assigned to investigate the handing out of contracts for some of Alexkor's noncore activities as well as a contract to mine one of its dumps, which is said to be rich in deposits It is alleged proper tendering processes were not followed

Sigcau said government was embarking on measures to ensure the Alexkor process was "as transparent as possible in an industry of that nature"

She said government's delay of the wholesale privatisation of the mine had been the correct decision

Meanwhile, Canadian-listed Namibian Minerals Corporation (Namco), a potential bidder for the mine, has begun moves to mobilise support in the region through African National Congress branch structures

A government source said it was alleged that an official of the local ANC branch structure organised meetings addressed by Namco representatives.

Namco chairman Allastair Holberton said his visit to the Northern Cape region last week was part of a fact-finding mission to investigate investment opportunities.

Meetings were held with communities and stakeholders "to introduce ourselves" as Namco was attracted to the region by the quality of its diamonds and it formed part of an initiative to extend its interests into SA.

Namco was also looking at other smaller mining operations. Holberton said Namco brought with it a fresh approach, "being a good corporate citizen, involving the community and other stakeholders in its operations"

Société Générale Frankel Pollak diamond analyst Ross Gardiner said past experience had shown that Namco's priorities lay in ensuring the politics of the region were favourably disposed to them. Hence the strategy being used in the Northern Cape appeared to be the same as that used in Namibia, where it was the first company awarded offshore concessions after independence

Nelson Mandela Children's Fund trustee Yusuuf Surtee was recently appointed to the Namco board.

Ocean Diamond hauls profit up 44%

ET(BR) 20/5/98 (216)

Marc Hasenfuss
CAPE EDITOR

Cape Town — Ocean Diamond Mining Holdings, the independent gem producer, posted a 44 percent increase in bottom-line profit to R17,4 million in the year to March 31, Andre Louw, the managing director, said yesterday

Louw said the results were helped by a strong cash position

He said interest earnings were doubled to R9 million, which is more than the company's operating profit of R8,3 million

"Although interest made a significant contribution to profits, the company is very pleased with the performance of its marine operations We planned to expand our exploration programmes during the year and, in spite of a 50 percent increase in exploration expenditure, we managed to lift operating profit 21 percent to R8,26 million "

Louw said the company sold 58 223 carats to push turnover up 19 percent to R52 million

"Weaker diamond prices during the second half brought the average diamond price to $189 a carat for its product during the year, which is a marginal improvement on the previous year's average price "

Louw said the rand's slide against the dollar, from an average R4,47 to R4,73, helped the company increase turnover

He said the company had made strategic investments during the year in new technology to improve sea floor mining efficiencies and optimise existing ore reserves "The commissioning of our first controlled underwater dredger is a major step forward "

Louw said the company had been building up its cash reserves to expand and improve operations He said the commissioning of a third vessel towards the end of the 1999 financial year would allow flexibility in marine operations by stepping up ore reserve delineation and increasing overall diamond production

Louw said the year ahead would be a transitional period for the company as its Angolan alluvial operations got under way

Ocean Diamond Mining closed unchanged at R4 yesterday in thin trade on the JSE

Mine 'sabotage' probed as top-secret papers stolen

(216) ARG 26/5/98

JOHAN SCHRONEN
CRIME CORRESPONDENT

Police are investigating a possible attempt to sabotage the privatisation of state-owned Northern Cape diamond mining corporation Alexkor after the theft of secret documents from a Tamboerskloof hotel room.

Detectives are probing the theft of at least 25 pages of highly sensitive company information and an audio cassette from the briefcase of Fanie Fourie, Alexkor's secretary.

He left the briefcase in his room at the Mijlof Manor hotel last week

Alexkor spokesman Tiaan Combrinck said the documents were stolen on May 18 after a "normal" board meeting. The company was perplexed about the motive

Mr Combrinck said he could not comment on discussions at the meeting earlier that day, but a source close to Alexkor said Mr Fourie and the directors met to discuss Alexkor's imminent privatisation, secret strategy and potential threats

These included a belief that there were "moles" in the company involved in bribery and corruption

Before the theft, the Government appointed a technical adviser to oversee the introduction of management consultants to run Alexkor, which, said Wandile Zote, spokesman for the Ministry of Public Enterprises, was a "floundering" mine.

This adviser was to form part of a government team to help in the evaluation of the bids for a management contract and the implementation of an exploration programme. The Alexkor source said the company disputed the adviser's report and imported its own adviser from England, who drew up a contradictory report

Mr Zote said at the time that the state intended to place the mine under private management pending the completion of the exploration process

The mine came under a spotlight recently when Mandla Msomi, chairman of Parliament's committee on public enterprises, reported diamond theft amounting to more than R600-million there in the past year He said gems were strapped to homing pigeons which flew over the border to Namibia.

Namaqualanders may get share, page 3

Namaqualanders may get share of Alexkor diamonds

(216) (250) (~~272~~) ARG 26/5/98

POLITICAL CORRESPONDENT

Public Enterprises Minister Stella Sigcau says the Government will retain ownership of the offshore diamond mining parastatal Alexkor until the value of the company becomes clearer.

But it may allow the Namaqualand community to take a small shareholding

The Government is to call for tenders from mining companies to bid for a management contract to run Alexkor, based in Alexander Bay, in the interim. At the end of the contract, the company will be able to exercise an option to acquire a significant shareholding in Alexkor

The state will continue to hold the mineral rights and will negotiate the mining rights with Alexkor

In her budget speech to the National Assembly, Ms Sigcau said the privatisation process for Alexkor could not be divorced from the industry policy which would be adopted eventually for the diamond mining sector.

Alexkor had been downsized in the past year as part of its internal transformation

She said the strategy was to build up economic activity not related to minerals so that the base of Namaqualand's economy could shift from minerals to renewable resources

Labour concerned over appointment of Alexkor adviser

Reneé Grawitzky

BD 29/5/98

LABOUR has expressed concern over government's formal announcement yesterday of its decision to appoint Hatch Africa to perform the role of technical adviser in the restructuring of Alexkor, a state-owned diamond mine in the Northern Cape (216)

The National Union of Mineworkers and the United Association of SA, in a joint labour response, said it appeared from the interview process that the company chosen had very little experience in alluvial diamond mining compared to some of the other companies which put in tenders. The unions said they would distance themselves from this decision.

Government said Hatch Africa had been selected from a list of five bidders The failed bidders were Venmyn Rand, IMC Knight, Tresold Mining, Mike Scott & Associates and Marine and Geocoastal. The appointment of the technical adviser would set in motion a two-stage process leading to the final sale of the mine in three to five years.

Assessing the mine's operations to determine the correct required exploration capital would necessitate an investigation into the mines' ore resources.

An investigation into the extent of these resources — which is crucial in determining the value of the mine — has been contested in recent weeks.

A number of investigations have contradicted each other, leaving some uncertainty as to the true state of the mine's reserves.

'De Beers took my mine'

M+G 5-11/6/98 (216)

Mungo Soggot

A Canadian mining company has accused De Beers of trying to hijack its rights to mine a lucrative diamond field in the Northern Province

The company, Southern Era Resources, also believes old guard government officials have conspired against its bid for a mining permit at the Marsfontein field

De Beers apparently passed over the field a decade ago The diamond giant only became interested again after Southern Era, which was already prospecting in the area, discovered a new, lucrative source of diamonds De Beers claimed this week it had wanted to mine, but that Southern Era's South African partner, Randgold, had beaten it to securing a prospecting licence in 1987 But Southern Era counters that De Beers wrote to Randgold earlier that it had found "nothing significant"

Now De Beers has sided with the heirs to the land in a bid to wrest control of the mining rights from Southern Era and Randgold Southern Era has spent R20-million preparing the field with a valid exploration permit, and has committed at least R100-million to develop it.

After a six month struggle to secure the mining rights — a battle which has precipitated a sharp drop in the company s share price in Toronto — Southern Era is now in danger of losing its investment in the project

Southern Era has already started underground and open pit mining in an area surrounding Marsfontein The diamonds can be mined easily from the surface, which would give Southern Era cash to fund the underground mine Klipspringer

The matter is now in the hands of Minister of Minerals and Energy Penuell Maduna, who can decide which company gets the mine Maduna is under pressure from both sides foreign investors have warned him of the investment repercussions if he sides with De Beers and the company s chair Nicky Oppenheimer, met Maduna this week to argue its case

On Thursday during a conference call with his Canadian shareholders Southern Era s chair Chris Jennings, kept the door open to a joint venture deal with De Beers — a prospect he says he does not relish Analysts believe Maduna will be keen to back such a compromise

Jennings a South African suspects De Beers has been gunning for his company with a view to seizing control of Southern Era s diamond deposits in Angola "I wonder why De Beers is worried about Marsfontein if there isn t a longer term strategy to access rights to potentially huge reserves in Angola he said.

Since February Southern Era has been involved in a complicated legal battle with people claiming to be the heirs of the diamond rich land Shortly after the company filed its application to convert its prospecting licence into a full mining licence at the Pietersburg branch of the Department of Minerals and Energy, the 29 heirs grouped together and applied to the high court for an interdict stopping Maduna from granting the licence

The heirs had remained silent until then while Southern Era in partnership with local mining house Randgold, prospected for diamonds on the land

The Pretoria High Court granted the interdict in January and set the matter down for a full trial which Southern Era expected to win The company says it searched for any heirs to the mineral rights but found none The heirs were obliged to register their claim within two years of the original owners deaths between 1958 and 1969

But before the matter was heard in court, officials in the department quietly accepted the registration of the heirs mineral rights in the name of a company they set up Jennings says this transaction should have been approved by the minister

Southern Era struck back and obtained an interdict against the heirs from alienating the rights But the heirs have effectively circumvented this interdict by signing a secret option with De Beers entitling it to mine A De Beers representative said it was approached by the heirs in January

Jennings fears De Beers will end up with the rights after signing with the heirs. He has until now decided not to take the department to court for its seemingly extraordinary decision "We first want to try to be good citizens about this"

De Beers is offering the heirs R75-million — a figure Southern Era is prepared to match

Meanwhile, Southern Era has offered a R50-million reward for lost documents the company thinks prove that the original owners sold off their rights before their deaths

Maduna has recently shown himself willing to take on De Beers The minister said in Parliament he would remove the state diamond producer, Alexkor, from the Central Selling Organisation — De Beers s London based diamond cartel which controls the supply of diamonds to world markets — claiming that Alexkor will be able to get higher prices if it sells outside the organisation De Beers said it had not heard of this decision

It remains unclear whether Maduna will deal another blow to De Beers so quickly He has already publicly backed Southern Era in the early stages of the court battle, but has said nothing since his department signed away Southern Era's rights

Jennings said of the Oppenheimer Maduna meeting this week that he suspected Oppenheimer would have wanted to discuss Alexkor, but that Marsfontein would have been high on the agenda He said he was waiting to see Maduna. "It does worry me that he has seen them first. Maduna must right a wrong."

Jennings believes the department acted improperly in signing over the rights to the heirs, raising the concern that the officials who signed away Southern Era's rights just after the temporary interdict were perhaps not acting on their own.

Jennings says senior department officials expressed surprise that the rights had been signed off to the heirs at a meeting in Pretoria.

Maduna s special adviser on mineral affairs, Linda Makatini confirmed the minister had met Oppenheimer and said he planned to meet Jennings before the end of this week. Makatini said her department's transfer of the rights to the heirs had "changed the case completely"

She said the department decided to settle the case after the heirs offered to pay the department's costs She would not comment on Maduna's discussions this week.

Jennings says none of this would have happened if the new Green Paper on mineral rights was law The Green Paper places a strong emphasis on encouraging foreign investment in South Africa's mining industry It gives the state a greater say over who can develop mines, and proposes the transfer of privately owned mineral rights to the state

Canadian prospectors allege bid conspiracy

(216)

CP 7/6/98

By HANGWANI MULAUDZI

Minister now has to decide who gets mine

A CANADIAN company has accused De Beers of trying to hijack its right to mine one of South Africa's richest diamond fields

The foreign company, Southern Era Resources (SER), also believes former government officials (members of the Broederbond) have conspired against it in its bid for a mining permit to the Marsfontein diamond field in Zebediela, Northern Province

It is alleged that De Beers passed over the fields a decade ago after conducting a lengthy geological survey and became interested again only after SER, which was already mining in the area in a joint venture with local mining company Randgold, discovered a new lucrative source of diamonds

SER has already spent R20 million developing the field with a valid exploration permit

But after a five-month struggle to secure its mining rights, which has precipitated a sharp drop in the company's share price in Toronto, SER is now in danger of losing its entire investment in the project

The matter is now in the hands of Minerals and Energy Minister Penuell Maduna who is to decide which company gets the mine

SER's chairman, Chris Jennings, said he is tempted to give up on South Africa.

Jennings says he suspects De Beers is gunning for his company with a view to seizing control of SER diamond deposits in Angola

"I wonder why De Beers is worried about a relatively small reserve and if there isn't a long-term strategy to access rights to potentially huge reserves in Angola," said Jennings.

Over the past five months, SER has been involved in a complicated legal battle with people claiming to be heirs of the diamond-rich land.

Days after the company filed its application to convert its prospecting licence into a full mining licence at the Pietersburg branch of the provincial minerals and energy department, the 29 heirs grouped together and applied to the high court for an interdict stopping Maduna from granting the licence

The heirs had remained silent until then, while SER prospected for diamonds on the land, spending at least R20 million in the expectation that the right to begin full-scale mining would be a mere formality

The Pretoria High Court granted the interdict in February

The matter had been set down for a full trial, which SER expected to win

The company had searched for any bona fide heirs to the mineral rights

However, SER found no record of any claim while preparing its applications

Before the matter was heard in court, officials in the department of minerals and energy affairs allegedly handed the heirs the mining rights

The heirs in turn signed a secret option with De Beers entitling the mining giant to mine.

Jennings now fears De Beers will end up with the rights after signing a secret deal with the heirs

Jennings has until now decided not to take the department to court for an apparently extraordinary decision

"We first want to try to be good citizens about this," said Jennings.

He said he was concerned that Maduna had seen De Beer's chairman Nicky Oppenheimer.

But Jennings added that the minister was obliged to listen to both sides before taking his decision

Jennings said he was still awaiting his turn

Jennings said if there was no approach from Maduna by next week he was going to Canada

"Maduna must right a wrong," said Jennings.

Attempts by City Press to get a comment from the deputy director of mineral development, Dr Jan Breddell, were unsuccessful

De Beers accused of 'dirty tricks'

ET (BR) 9/6/98 (216)

JONATHAN ROSENTHAL
INDUSTRIAL EDITOR

Johannesburg — SouthernEra, the Canadian listed mining junior, yesterday said it was the victim of a dirty tricks campaign in its battle with De Beers and the descendants of the original holders of the mining rights to rich diamond deposits in the Northern Province

SouthernEra has been embroiled in a dispute since December over who owns the mineral rights to the Marsfontein farm, the site of a rich diamond deposit discovered by SouthernEra

Christopher Jennings, SouthernEra's chairman, said that since the dispute began there have been attempts to destroy SouthernEra.

He claims that earlier this year one of the parties to the dispute attempted to lay criminal charges against SouthernEra alleging that it was prospecting illegally and was in illegal possession of diamonds Jennings said the police declined to lay a formal charge after they found SouthernEra's prospecting permits were in order

Jennings also claims he had been told that senior De Beers officials have been denigrating SouthernEra's financial standing and attempting to discourage Canadian investors from buying its shares

"An investigation by the Toronto Stock Exchange was sparked by a report that SouthernEra insiders had carried out trading prior to their announcement of the interdict restraining the minister (of minerals and energy) from granting us mineral rights This proved to be totally unfounded," Jennings said

Jennings said uncertainty over the Marsfontein rights, and the attendant dirty tricks campaign, had cut SouthernEra's share price from more than $20 a share to a quarter of that value on the Toronto Stock Exchange Yesterday it traded at C$4,80

De Beers failed to comment before going to press

The dispute began when SouthernEra filed an application for a mining licence in December, after determining that there were no registered holders of the mineral rights Shortly after it filed its application a group of 29 descendants of the original four owners claimed ownership of the rights

The descendants registered these at the deeds office in spite of the fact that transfer of the rights had not taken place within two years of the deaths of the original holders as required by law The descendants then gave De Beers an option to buy the rights

SouthernEra and De Beers sign deal

BD 17/6/98 (216)

Simon Barber

WASHINGTON — De Beers is to take control of the disputed M1 diamond pipe on Marsfontein farm in Northern Province, ending a bitter fight with Toronto-listed mining junior SouthernEra Resources.

SouthernEra had been about to start mining at the site when 29 heirs emerged unexpectedly last December, registered their rights and optioned them to De Beers.

Under an agreement announced on Monday, Minerals and Energy Minister Penuell Maduna will be spared having to rule on SouthernEra's application that the heirs and De Beers be expropriated under section 24 of the minerals act in the public interest.

De Beers is to get a 60% interest in M1 and will manage the project. SouthernEra will take the remaining 40% after buying out partner Randgold Exploration. De Beers will pay the heirs' company, NGS Resources, about R75m as previously agreed.

SouthernEra is to retain control of its larger Klipspringer project nearby, and Marsfontein ore will be processed at the company's recently completed treatment plant at Modderfontein. De Beers' Central Selling Organisation will buy M1 and Klipspringer output.

Previously, SouthernEra president Chris Jennings insisted he would not sell through De Beers, saying it would mean taking a 25% discount on prices SouthernEra could obtain elsewhere.

A joint statement by all four companies involved said the agreement would "enhance and strengthen the stability of the world market for diamonds, as well as provide SouthernEra with the benefits of an assured and reliable market".

SouthernEra had been counting on the M1 pipe, which is small but contains a very high grade of easily mined ore, to finance operations at Klipspringer and the expansion of its holdings at Camafuca, a potentially massive pipe in Lunda Norte province, Angola. In a teleconference with investors and analysts on Monday, Jennings said the deal with De Beers "should give us funds to do additional work in Angola and get at more of the Camafuca pipe which we believe is going to be a real winner".

CSO sees 41% fall in diamond sales

Hilary Joffe (216) BD 18/6/98

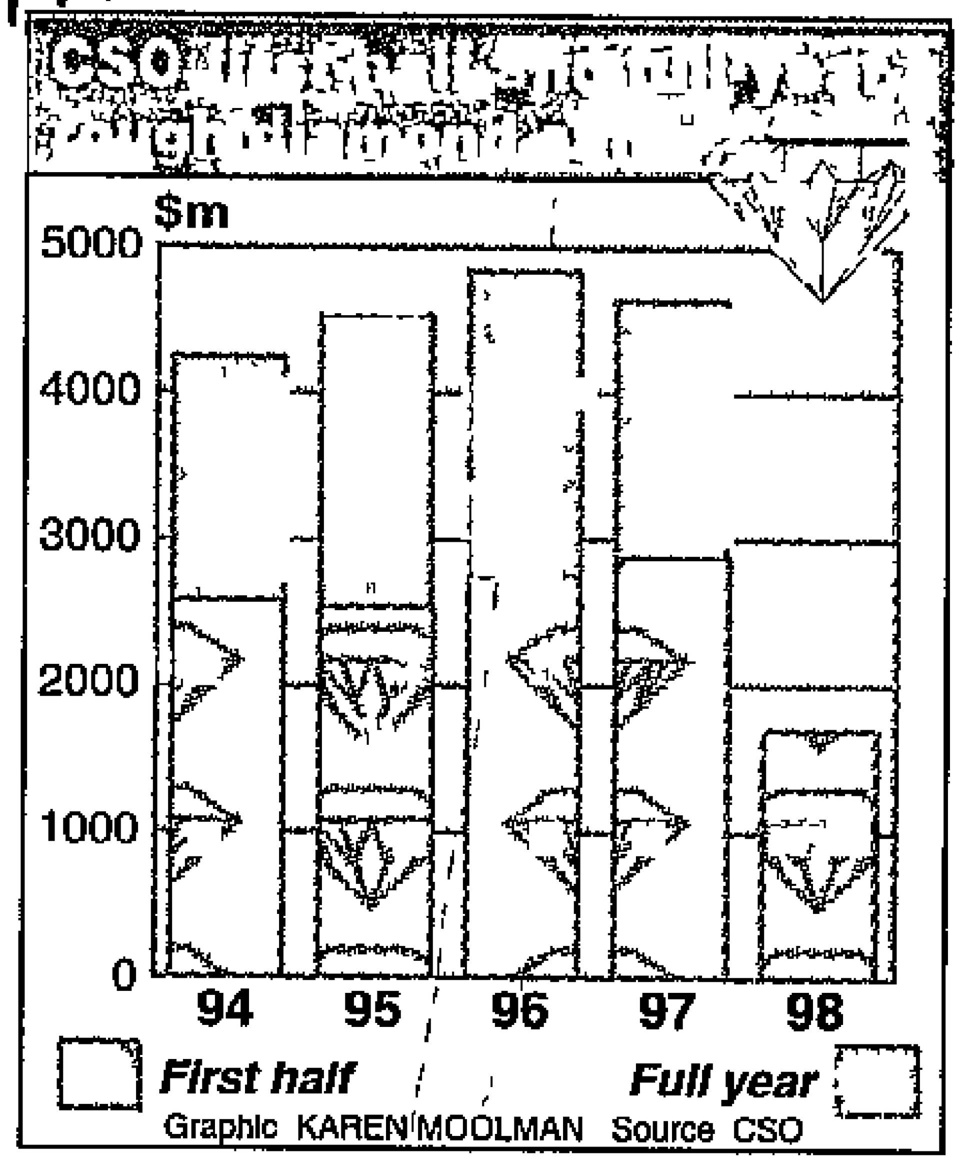
DE BEERS' Central Selling Organisation reported a 41% drop to $1,7bn in first-half rough gem diamond sales, the lowest first-half figure since 1992.

The fall in sales followed CSO attempts to curb overstocking in the industry hit by shrinking retail diamond markets in Japan and southeast Asia.

The $1,7bn sales figure, sharply down on last year's first-half sales, was slightly better than the consensus forecast of $1,55bn, but analysts were not optimistic. Some said diamond cutting centres were now clear of excess stock, but others were less sanguine.

O' Flaherty Sundelson analyst Des Mayers said the CSO could probably sell more in the second half, but would have to watch developments in Asia carefully. The danger was that growth — and therefore retail diamond sales — could slow down in the US before Asia recovered.

Another said there was no guarantee that, even if Asia recovered, its consumers would start buying diamonds.



The US, which used to account for about 28% of the world's retail dia-

Continued on Page 2

CSO BD 18/6/98

Continued from Page 1

(216)

mond market, now accounts for more than 35% as other important markets have declined. At their peak in 1996, the Japanese and southeast Asian markets together accounted for about 40% of the market.

De Beers reported strong growth this year in retail sales of diamond jewellery in the US, Canada, India and Europe. Sales in the Gulf states, China and Taiwan continued at reasonable levels but the markets in Japan, Korea, Thailand and Indonesia declined further.

De Beers said the supply of rough diamonds to the cutting centres was running below the level of retail consumption, allowing cutting centres to reduce their rough and polished stocks by $1bn compared with July 1997.

Trade confidence had improved in the past few months and, provided retail consumption was maintained at present levels, the CSO expected to continue increasing its sights gradually to the point where supply to the market would equal consumer demand.

An analyst calculated that, all else being equal, the fall in CSO sales would take $0,50 off De Beers' first-half earnings a share.

Advertising: Barry Thompson
Editorial: Norman Chandler

Next Chmica helps put South Africa's precious metal chemical manufacturing on the map

New role for precious metals

(216) ET/(BR) 30/6/98

It is well known that South Africa is the world's largest producer of precious metals, and in this arena, the mining industry has played a dominant role.

The refined metals have historically been sold on the international precious metals market, providing a major proportion of the country's foreign revenue, but what is less well known is that they are mainly used as industrial materials, rather than for decorative purposes such as jewellery.

Industrial applications cover diverse areas such as electroplating, electronics, mirrors, auto catalysts, cancer treatment drugs and catalysts in the petrochemical industry, and all exploit the resistance of precious metals to chemical corrosion and oxidation and their catalytic properties.

Industrial applications often require precious metals in a chemical form as raw material. The properties which are exploited in industrial applications makes it difficult sometimes to convert from the metallic form to precious metal salts.

Chemical conversion requires specialised technical knowledge of the chemistry and metallurgy of precious metals as well as detailed technical knowledge of the applications of precious metal chemicals.

Over the past 10 years, Next Chmica, a company based in Johannesburg, has worked to develop the precious metal chemical manufacturing base in South Africa by developing in house expertise required to manufacture these chemicals and also to compete in the highly competitive and specialised international market for the products.

Today, the company supplies its products to customers in South Africa and is the largest exporter of precious metal chemicals to customers in more than 17 countries.

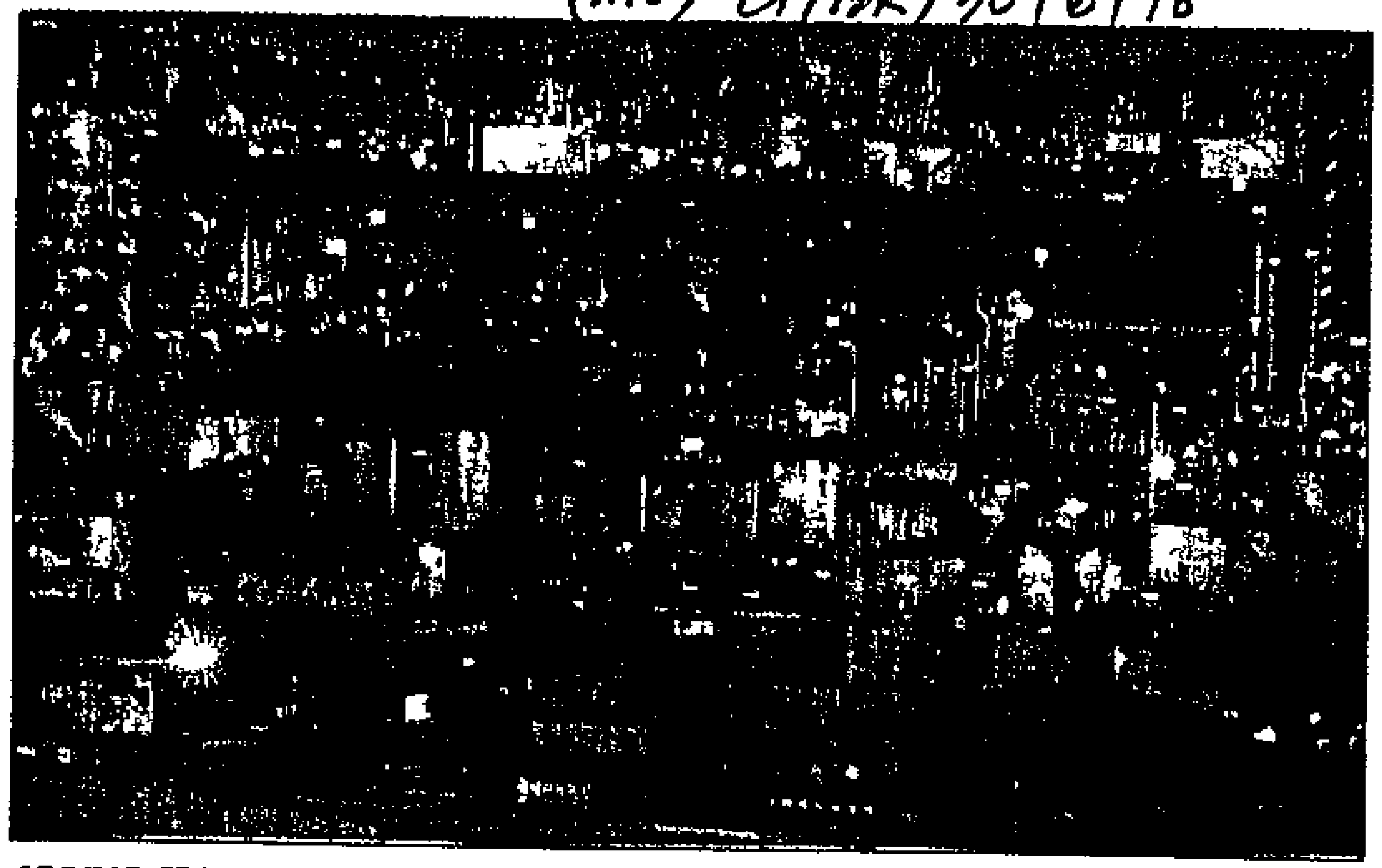
Although the company has established itself as a reliable supplier of high-quality products, it still faces the daily challenge of competing in a highly specialised and competitive global market.

"This challenge is addressed by continually pursuing and achieving innovation and development, and a focus on continuous improvement and quality," said Mike Albers, the company's managing director.

"As the products we manufacture are used as raw materials in high technology industries such as the automotive and petrochemical industries, it is vital to have the expertise and vision to foresee and address the concerns and requirements of customers," he said.

In line with this business philosophy Next Chmica is completing the installation of a quality management system which will be certified to comply with ISO9002 and will also comply with specific requirements of QS9000 and VDA6 the quality systems standards of the international automotive industry. Next Chmica is also a signatory to the chemical industry's responsible Care initiative, and is a member of the South African Society for Quality and the South African Quality Institute.

In Next Chmica's experience, success factors in global business development are quality, specialised technology, training and expertise, responsibility to the environment and global community, and customer focus. "These factors have to be integrated into every aspect of our business if we are to compete successfully in the marketplace of the 21st century," Albers said.



ADDING SPARKLE *South Africa's precious metals are not only used for jewellery manufacturing, but play a vital role as industrial materials in hi-tech industries*

Van Ommeren a world leader in tank storage

High quality storage, handling and transport of liquid products for industry and trade are the main activities of Van Ommeren, one of the world's largest independent tank storage companies.

It transports, through a fleet of about 60 deepsea and other tanks, many fully owned or through joint ventures, clean petroleum products and chemicals, in particular methanol, in the Baltic-European area, the pacific Rim and in the Caribbean.

Van Ommeren also operates tank storage terminals in Europe, Africa, the Americas, Asia and Australia – with a total capacity of 15,5 million m³ for storage of petroleum products, chemicals, gases and vegetable fats and oils.

In addition to the Europe storage facilities, an inland tanker fleet of about 140 ships transports clean petroleum products, chemicals and gases through the waterways to Germany, Switzerland, Belgium and the Netherlands.

VOTG, a joint venture between Van Ommeren and VTG (Preussag) globally operates tank containers which are suitable for transport by train truck and ship, while a related company, Peacock, is active in the field of leasing out tank containers.

Peacock Container Leasing is set to expand its fleet with new buildings and has been negotiating an order for about 200 tank containers with the SA producer, Consani, in Cape Town.

In the last quarter of 1996, Van Ommeren took over the tank storage sites and blend plant of Powell Duffryn in Durban. This site and plant had a total capacity of 197 000 m³.

As part of a worldwide Van Ommeren terminal network, VOTTSA has various terminal upgrade programmes under way to meet standards. VOTTSA Durban is ISO-certified and a member of Responsible Care, managed by the Chemical and Allied Industries Association.

Within the next two years, the Durban terminal is expected to expand capacity by 21 000 m³ which will bring this site up to about 130 000 m³. The company is also seeking sites in Richards Bay and at Maputo (Mozambique).

At present the company's SA operations employ about 80 people. The company also has a network of agency and forwarding offices in north west European ports and three stevedoring companies on the US eastern seaboard.

SA approves diamond venture

CT (PX) 24/7/98 (216)

FROM REUTERS

Johannesburg — Canada's SouthernEra Resources said yesterday that the South African government had approved its diamond mining joint venture with De Beers

The ruling comes a month after the tiny Toronto-based exploration company and De Beers ended a bitter dispute over the diamond-rich Marsfontein farm and settled for a 60-40 joint venture in De Beers' favour

"We're very happy today Our plans are to start producing as soon as we can," SouthernEra president and chairman Chris Jennings said yesterday

Contract mining at the site about 300 km north of Johannesburg will begin in about two weeks, Jennings said They hope to ramp up production as quickly as possible to 50 000 tons a month

The battle over the Marsfontein site, part of SouthernEra's lucrative Klipspringer project, began in January when heirs to the farm obtained an injunction preventing the South African government from transferring the mineral rights to SouthernEra and its South African partner, Randgold.

The injunction was based on a claim by 29 people who said they were the descendants of the former owners of the land

SouthernEra said it checked back several generations and could find no evidence of mineral rights being passed on to heirs It launched a court bid to secure the mineral rights

De Beers entered the fray in April when the heirs, through NGS Minerals, agreed to a prospecting contract with De Beers

The dispute weighed on SouthernEra's stock price and threatened to drag on in court The government, reluctant to expropriate the land, urged SouthernEra to find a compromise

De Beers, through its Central Selling Organisation marketing arm, controls about 70 percent of the world's uncut diamond sales

De Beers wage dispute is settled (216)

Reneé Grawitzky and Pearl Sebolao

THE recent wage dispute between De Beers and the National Union of Mineworkers (NUM) was resolved last night, while a strike is brewing at Edgars after wage negotiations deadlocked.

An agreement struck between De Beers and the NUM provides for an 8% increase for the majority of workers It also provides for the standardisation of the minimum wage which will be increased to R1 800 a month

Meanwhile, Edgars could face a strike by thousands of members of the SA Commercial, Catering and Allied Workers' Union.

About 10 000 workers are expected to march to the group's stores and the Johannesburg Stock Exchange today to protest against intentions "to freeze wage increases" for this year.

The strike threat comes in the wake of the recent restructuring within the group which led to the retrenchment of about 1 000 workers in the past four months Edgars recently reported profit losses of about 30%, despite measures to contain costs.

BD 31/7/98

ANGOLA *De Beers says Unita's bootleg gems haven't hurt prices*

Diamonds may finance new war

ET(BR) 5/8/98 (216)

DARREN SCHUETTLER

Johannesburg — De Beers, the diamond producer, and analysts said on Monday that Angola's rebel Unita movement had the resources and determination to smuggle out diamonds to finance fresh fighting in the African country

But it rejected speculation that the bootleg stones threatened to provoke a crisis in the diamond trade and undermine prices

"We're fairly close to the market, and we're just not seeing any substantial increase in diamonds from Angola," said Bill Lear, a De Beers' spokesman

"The amount of diamonds coming out of Angola is rather less than in past years "

Asked about reports of widespread smuggling of diamonds from Unita areas on to world markets, Lear said "There always is smuggling and there is bound to be some We're simply not seeing evidence of it "

London's Guardian newspaper reported on Monday that the diamond industry faced the "spectre of a worldwide crash" in gemstone prices as smugglers shifted "huge quantities" of stones out of Unita-held areas in northern Angola

"There have been a lot of whispers about the Angolan problem in recent weeks, and this just adds further fuel to the fire," said a diamond analyst in Johannesburg

"I certainly believe Unita has a lot of stones, and perhaps they have been stockpiling them for a rainy day," he said, but he did not expect their sale to put severe pressure on prices

Fears abound that Angola is sliding back to civil war as the 1994 peace accord falters and the government and Unita ready themselves for renewed fighting

In January, Unita leader Jonas Savimbi agreed to withdraw from his main diamond mines in exchange for mining concessions in other areas The Unita-controlled mines produced between $500 million and $600 million of Angola's total annual production of $1 billion last year

Some analysts forecast Unita's diamond output will drop to around $100 million in 1998

The Guardian said the European Union, which slapped sanctions on Unita and its diamond trade last week, received a confidential briefing which estimated that Unita controlled up to 6 percent of all the world's diamonds

Lear said De Beers was unaware of the briefing, and the estimate of Unita's resources was not "a sensible figure"

He said De Beers was complying with the sanctions, which require a government certificate of origin for diamonds from Angola

As a result, De Beers has switched its strategy for dealing with diamonds entering the market from sources outside its marketing arm, the Central Selling Organisation (CSO)

"Our whole job in the CSO is to put on the market the number of diamonds needed," Lear said "If there were diamonds coming from outside sources and selling ahead of us, then we would hold back "

De Beers, which controls about 70 percent of the world's uncut diamond sales through the CSO, has been drilling for new kimberlite pipes in northeastern Angola since last year

Analysts and other prospecting firms in Angola said Unita's communication and supply lines through neighbouring countries had weakened since 1994, but they still expected contraband diamonds to get through and on to the world market — Reuters

De Beers feels the Asian pain

(216) CT(BR) 12/8/98

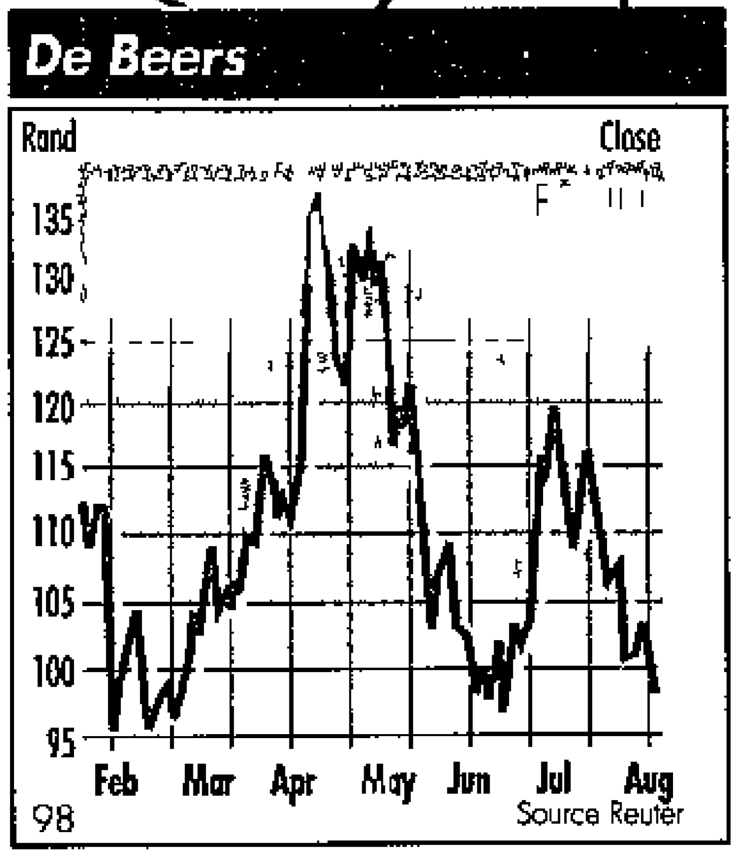
Andi Spicer
MINING AND RESOURCES EDITOR

Johannesburg — De Beers, the world's largest diamond company, yesterday reported that earnings had slumped by a third in dollar terms during the past six months as the continuing economic decline in Asia cut deeply into demand

Nicky Oppenheimer, the chairman, said "It's been an extremely difficult six months, and De Beers has suffered more than the retail market It's been a ripple effect, and as market conditions get worse this runs down the diamond pipeline"

Demand in Japan, the second largest market for diamonds, was down 20 percent, and southeast Asian demand was much worse The rise in demand from the US and Europe was "insufficient" to offset this decline.

But Oppenheimer said he expected sales for the second half of the year to be higher



Interim headline earnings fell 33 percent in dollar terms to $405 million and 29 percent to R2 042 million in rand terms in the half-year to the end of June

Although the results were significantly lower, the numbers were better than most analysts expected

The interim dividend was maintained at US27,4c per linked unit Combined total net earnings were down 57 percent to $339 million and down 52 percent to R1 694 million in rand terms The combined diamond account declined by 35 percent to $334 million or 27 percent in rands to R1 685 million

Oppenheimer said some production in southern Africa had been "arrested" and stocks had accumulated "We need prudence and don't need to maximise production," he said Diamond sights had been reduced by 40 percent during the period

Garry Ralfe, the managing director, said "Our first priority is to get stability and confidence into the market" The chance of renewing the marketing agreement with Russia remained "positive" De Beers believed it could be extended for longer than the 13 months of the former agreement

"We enjoy a good relationship with Russian producers, and there are many fewer diamonds from Russian now on the international market," Ralfe said

□ Business Watch, Page 2

NUM protest pending at diamond mine

Reneé Grawitzky

ALEXKOR, the state-owned diamond mine in the Northern Cape — targeted for privatisation — faces a possible strike by the National Union of Mineworkers (NUM) The union is demanding that government stop interfering in the daily operations.

The union announced that it had declared a dispute with management, to be heard by the Commission for Conciliation, Mediation and Arbitration this week.

However, resolution is unlikely, according to the union, as it is beyond management's authority to address some of the grievances. Resolution lies in the hands of government and the mine's board of directors.

The dispute stems from the NUM's demand that two senior managers be dismissed for, among other things, incompetence and racism

The union is also calling for either the disbanding of the mine's board of directors or its restructuring and the removal of government officials authorised to head the restructuring process at the mine.

The union said these officials were trying to manage the mine and in the process were hampering the mine's real managers from doing their job.

Almazy recommends extension to 2001

Longer life for diamond deal with Russia

CT(BR) 18/8/98

(216)

Andi Spicer
Mining and Resources Editor

Johannesburg — The diamond marketing deal between De Beers and Russia is likely to be extended to 2001 after Russia's largest producer Almazy Rossii-Sakha (ARS) recommended prolonging the agreement yesterday

ARS said its supervisory council, which had the support of the Russian government and the Republic of Sakha (Yakutia) in Siberia, had backed the extension

De Beers and its marketing arm, the Central Selling Organisation (CSO), forged an agreement last October to renew the marketing scheme for 13 months after two years of wrangling during which the CSO stopped selling Russian diamonds

"Under the agreement, there has been success in developing and strengthening Russia's interests in securing the development of the national diamond and gemstone complex, including the Russian diamond cutting industry," said ARS

"We look forward to renewing the contract with our (Russian) partners, and this is no surprise," said Joan Braune, a spokesman for De Beers in London.

Moscow and Yakutia back producer's plan to extend De Beers deal to 2001

The CSO controls a large part of the international diamond trade It serves to provide stability by buying up excess production and regulating the supply of the stones as well as stimulating demand.

The present agreement allows a minimum of $550 million of Russian annual diamond production to flow through the CSO, but also enables the export of diamonds from production which is uneconomic to be polished in Russia.

Russia is allowed to sell diamonds from its current stockpile through the CSO The maximum amount of Russian sales was set at 26 percent of CSO sales, worth about $1 billion

But analysts believe that more than $1 billion in Russian diamonds will be sold through the CSO this year

Although the agreement is for 13 months, from the beginning of December last year to the end of December this year, both parties said last year that "depending on the satisfactory operation of the agreement, (both) have formally expressed their intention to extend it for a further period"

De Beers closed R4,50 lower on the JSE yesterday at R66,00

Benco hopes to boost diamond recovery

Marc Hasenfuss

Cape Editor

Cape Town — Benguela Concessions (Benco), the marine diamond mining firm, hoped to boost gem recoveries after completing modifications to its mining vessel, the Moonstar, during its annual dry dock maintenance, Stuart Smith, the managing director, said yesterday

The recent technical innovations, coupled with a more thorough understanding of the geology of the area, have led to greater diamond recovery levels

The Moonstar was already bound for Devil's Hole, a diamondiferous feature on the Namaqualand coast, Smith said

"This is the scene of her most recent recovery successes," he said "The second half of the financial year has seen Moonstar achieve budgeted mining figures"

Smith said Benco had used the maintenance period in Cape Town to carry out improvements to the vessel and mining equipment

"These included the permanent installation of water jetting to both mining heads used for the recovery of diamonds from the sea floor," he said. "This has been instrumental in boosting the rate of diamonds recovered during mining"

The system used to position and move the mining heads has been upgraded to allow for greater accuracy and control The installation of an anti-fouling system, which rids the mining plant of marine organisms, will improve the throughput of diamondiferous material and bolster recovery rates

"We fully expect that we will continue to build on the success of the past six months as we use our hard-won experience in future operations," Smith said

Benco closed at 80c yesterday

(216) CT (BR) 18/8/98

Oppenheimers in new tussle with Russians

BD 18/8/98 (216)

LONDON — Diamond industry doyen Harry Oppenheimer and his family are again at loggerheads with the Russians, this time over a discovery that might be worth almost $4bn

The dispute does not involve De Beers but a small Vancouver exploration company called Archangel Diamond Corporation.

The Oppenheimer family has a firm grip on Archangel through one of its private investment companies, Task Holdings, which owns 41%, a stake that could rise to 50% next year.

Archangel is accusing its Russian partner in the Verkhotina project in the north of the federation of withholding a crucial mining licence and has filed a request for arbitration with the Arbitration Institute of the Stockholm Chamber of Commerce

Archangel president Tim Haddon said the company had already spent $10m on the Verkhotina project and was planning to spend another $8m But further work has been put on hold until the licence issue is resolved

As recently as May the Oppenheimers, via Task, invested another $10m in Archangel This came after a De Beers team finished an evaluation of one of the diamond-bearing pipes and estimated that it contained 51-million carats of diamonds worth $72 a carat If this is confirmed, the pipe could become one of the world's richest diamond mines.

Analysts suggest that, after seeing the report, Archangel's partner might now be having second thoughts about transferring the mining licence to the joint company, Almazny Bereg (AB)

Archangel owns 40% of AB and the Russian partner, Arkangelskgeoldobycha (AGD), 50% Archangel is claiming that AGD agreed to transfer the licence for Verkhotina to the joint company after Archangel had spent a specified sum on the project This spending requirement was met in late March

Matters came to a head when Almazny Bereg's annual meeting on June 30 was abandoned because no representative from AGD turned up — Financial Times

Russian-De Beers deal: Page 18

Russia

(216)
BD 18/8/98

Continued from Page 1

International rating agencies downgraded their long-term foreign currency ratings of the Russian Federation

Fitch Ibca downgraded its ratings from BB- to B- and placed it on rating alert negative These ratings apply to senior unsecured sovereign debt issues Standard & Poor's lowered its long-term foreign currency issuer credit rating to CCC from B- The short-term foreign currency, issuer credit rating, remained at C, the agency said, and the outlook on the long-term rating would remain negative

Losses on Asian markets, which saw Japan's Nikkei 225 index close 329 points or 2,2% lower at 14 795, also compounded world market woes.

However a firmer Wall Street helped some European bourses to end stronger and limited the JSE's losses The Dow Jones industrial average overcame an early 56-point drop and had risen 134 points to 8 559 by 2 30pm in New York

Locally, dealers said the rouble's devaluation prompted investors in morning trade who had been expecting the rand to breach R6,40 to take long dollar positions Andrew Kinsey, chief dealer at ABN-Amro, said surprisingly good corporate support materialised above R6,35 to the dollar. He expected the rand to trade in a R6,20 to R6,40 range "We would need a fresh impetus, generated locally, for it to weaken dramatically."

More reports: Pages 10 and 11

Russian gem deal on way

(21b) ST (BT) 23/8/98

DIAMOND DEAL

By NEIL BEHRMANN

DE BEERS' trade agreement with Russia is likely to be extended for a further three years when the present accord expires at the end of December

At a conference in London, directors of Alrosa, Russia's main diamond producer, said they were confident that Russian and other authorities would sanction the extension

The present agreement allows Russia to sell diamonds amounting to up to 26% of De Beers' annual sales.

Alrosa president Vyacheslav Shitirov estimates sales to De Beers this year will be $900-million (R5 6-billion)

De Beers said an "observation council" that includes the Russian government and the Republic of Sakha had agreed the agreement should continue Despite delays, Shitirov believes the new agreement will be passed quickly

Diamond dealers said the timing of the deal was intriguing, considering Russia's economic turmoil and desperate need for foreign exchange

They speculate that Russia will also want to borrow money from De Beers, with diamonds as collateral In the early 1990s they borrowed $1-billion

ANALYSIS

Gem polishing industry mooted

The Northern Cape plans to set up a diamond cutting and polishing industry, but its plan is likely to be bogged down by logistical problems, writes mining reporter David McKay

(216) BD 4/9/98

THE Northern Cape provincial administration visited the Belgian port city of Antwerp this week to raise support for plans to re-establish a diamond cutting and polishing industry in Kimberley But the remoteness of Kimberley's location, 455km from Johannesburg and 150km from Bloemfontein, could unravel the Northern Cape's spin doctors

Anwar Carawan, adviser to Northern Cape premier Manne Dipico, said in a recent report that the province produced a significant portion of the world's rough diamonds It wanted to develop a downstream cutting and polishing diamond business of its own.

The business is to be centred in Kimberley, using diamond cutting and polishing premises closed in the 1980s, but which Carawan hopes can be refurbished

Coupled with its historical connection to diamonds, Carawan believes Kimberley can extend its mining business into downstreaming, thereby creating additional jobs for the local population

Observers acknowledge the potential benefits of the plan, but argue that Kimberley's relative remoteness detracts from the allure of its historical ties to diamond mining

The difficulties of decentralisation are currently being played out in KwaZulu-Natal, Newcastle, the location of SA's only remaining operating decentralised diamond business

As the Northern Cape's delegates depart for Antwerp, it is quite likely that the fate of the Newcastle factory will be decided

Its 160 employees are currently locked in a wage dispute and the premises have been temporarily closed In plainer terms, the Newcastle factory is competitive as long as labour is cheap

De Beers diamond consultant Gareth Penny explains that away from the diamond board and bourse, international airports, diamond cutting and polishing equipment suppliers, and ready sources of international capital, the decentralised factories are under strain to find a competitive edge

He believes that Kimberley must offer financial incentives to make itself competitive, otherwise it will go the way of others factories in Bloemfontein, George, Pietersburg and Potgietersrus

Carawan concedes it is not entirely easy to conduct a diamond business in Kimberley, due to its lack of infrastructure However, with the support of the established role players in the SA diamond industry, building infrastructure for diamond transactions will revolutionise the industry in SA, he says

Clearly, there is a level of injustice in the way SA's diamond business has developed SA's diamond industry generates insufficient direct employment relative to the scale of investment and the value of its output Some 1,5-billion carats of gem-quality diamonds are still to be mined from the Northern Cape and off the neighbouring Namibian coastline

Carawan contends that the supply of rough diamonds to the SA domestic industry, and more specifically the Northern Cape, must have first priority, thus mirroring the intentions of the governments of SA, Botswana and Namibia who collectively intend to make the development of a diamond cutting industry in their own countries a priority

Carawan says that in SA, foreign partners are invited to handle goods for which the local industry itself has neither the know-how nor the financial resources to process

The Northern Cape plans to start its own diamond cutting industry Picture DIAMOND NEWS & SA JEWELLER

"This situation has to change for the creation of a domestic added value market The Northern Cape government is determined to create a profitable industry which produces mostly the Israeli-Thai type of goods in cognisance of the fact that competing directly with the Indians is not feasible," he says

Carawan says the mission of the Northern Cape government is to extract the maximum benefit from its own resources "After all, foreign countries are benefiting from diamonds through processing although they have no diamond reserves of their own "

The cutting centre being planned for the Northern Cape is also intended to have a hand in the marketing of diamonds as part of a plan to promote the Northern Cape's small-scale diamond industry

The marketing of a large part of the world's diamonds supplies has been the domain of the Central Selling Organisation (CSO), the London-based marketing arm of diamond conglomerate De Beers, for many years

The CSO has been tenacious in retaining its grip on marketing the world's diamonds, arguing that its method of single channel marketing is the only way to ensure price-stability for the diamond industry

Unlike other mined products, diamonds are in the majority produced for the luxury market and compete for consumer's discretionary income with other non-essential items such as overseas vacations

Since consumption of diamonds is therefore sensitive to the fluctuations in the spending power of a certain market, the CSO likes to maintain tight control of diamond supply, limiting their distribution when world economies contract. It is therefore unlikely the CSO would want to cede the control for which it works so hard

SG Frankel Pollak's Ross Gardiner says the skills involved in the diamond cutting and polishing industry are passed through generations in small family businesses As a result, market share of the downstream industry is closely guarded Its skills are highly developed and specific

More importantly, the diamond and cutting industry has been developed in highly populated centres such as Antwerp, New York and Bombay The buyers who visit them conduct their business speedily and in all likelihood would not consider the Northern Cape's Kimberley as a convenient centre

"In addition, diamonds are easily transported, owing to their size, which makes it relatively easy and cost-effective for cutters in traditional areas such as Antwerp and Bombay to polish and cut the diamonds," Gardiner says

Moreover, the dip in the world diamond market will make any short-term attempt to enter the diamond market a virtual impossibility for the Northern Cape government.

Des Mayers, O'Flaherty Sundelson's diamond analyst, said that should diamond demand in the currently buoyant US market fall off, the world's diamond industry will face serious short-term decline The time is not ripe for establishing a new downstream diamond business

De Beers' Penny says that Johannesburg's diamond downstreamers, who in fact are skilled, are nonetheless surviving in difficult market conditions

Already, a large part of SA's diamonds, upwards of \$300m in value, are passed on to sight holders — businessmen invited about every five weeks to buy rough diamonds from the CSO

These sightholders on-sell their polished diamonds to both international and domestic clients. In addition to the sightholders, a cluster of some 113 Johannesburg-based polishers and cutters are operating from Jewell City — the facility which interacts with De Beers subsidiary Diamond Development Company (Diambel)

De Beers is also getting behind a plan to develop an industrial hive which will enable those with cutting and polishing skills to rent equipment In addition, cutting and polishing skills are being developed at the Harry Oppenheimer Training School which was established a year ago

Penny says that only about 0,5% of the world's polished stones are bought by SA customers each year thus highlighting the need for international markets

Carawan says the picture will be clearer after the delegation returns from Antwerp where incentives such as tax holidays will be offered to potential investors "The Northern Cape government will not needlessly promote a cause for the establishment of a diamond cutting industry to merely establish its credibility among its constituency and to raise false hopes," he says

NUM calls solidarity strike over Dancarl Diamond

(216) CT (PR) 30/9/98

Frank Nxumalo

Johannesburg — More than 3 000 mineworkers allied to the National Union of Mineworkers (NUM) will embark on a solidarity strike next week after Dancarl Diamond Mine in the Northern Cape allegedly defied a labour court order to reinstate dismissed employees, the union said yesterday

NUM said the entire workforce at Dancarl had gone on strike last year after the management refused to talk to the union on the improvement of wages and other conditions of employment.

The union said the court had ruled that the workers' dismissal had been unfair and ordered their reinstatement. A meeting with the Commission for Conciliation, Mediation and Arbitration (CCMA) had failed to resolve the dispute.

"The mine management has defied the court order and refused to re-employ the workers," the union said "As a result, the NUM will mobilise all mines around the Barkly area to support the demands of Dancarl Diamond Mine workers

NUM also said: "Dancarl Diamond Mine employed more than 330 workers, of which a large number were replaced by scab labour following the unlawful dismissal of the striking workers."

In another development, hundreds of mineworkers allied to NUM would down tools today at Impala Platinum Refinery in Springs, after a CCMA intervention had failed to resolve a wage dispute, NUM said yesterday

George Molebatsi, NUM's spokesman, said the company was making a conditional offer of 8 percent against union demands of 9,99 percent.

Meanwhile, the National Union of Metalworkers of South Africa (Numsa) and the South African Motor Industry Employers' Association (Samiea) were still locked in CCMA-brokered negotiations last night.

Dumisa Ntuli, Numsa's spokesman, said guaranteed personal increases for workers already earning above the prescribed industry minimum wage was the one issue separating the parties from a settlement

Samiea maintains that only minimum wage increases should be negotiated at central bargaining level, and actual rates of pay at enterprise or plant level.

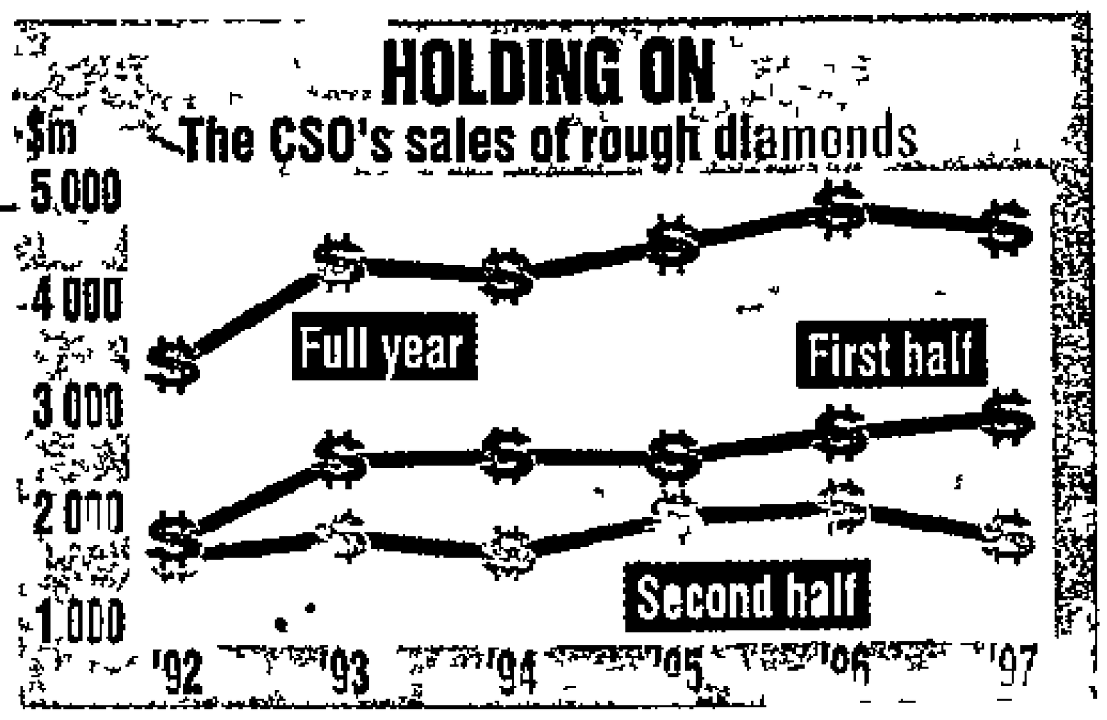
Ntuli said last night the parties were still deadlocked. The CCMA was consulting the parties separately and it did not seem as though there would be an agreement before today

DIAMONDS

(216) FM 6/11/98

DE BEERS AND RUSSIA GET INTO BED AGAIN

But can the Russians stay true?



In Russian villages, they say if God listened to every shepherd's curse, the sheep would all be dead

When De Beers and the Russians signed the extension of their diamond trade contract in Moscow this week — renewing it until December 31 2001 — there weren't any curses The problem for De Beers is judging just how close to dead, financially speaking, Russia's diamond industry is, or could become over the next three years

De Beers is worried that, desperate for cash, Russia's diamond mining company, Almazy Rossii-Sakha (Alrosa), its domestic diamond manufacturers, and the state diamond depository (Gokhran) will find a way to bypass the Central Selling Organisation's (CSO) marketing system the contract is supposed to protect, and sell on the open market

The current Russian contract had a three-year term when negotiations began in 1995, but it took two years to reach a deal which expires on December 31 1998

"It has been in force for such a short period, we haven't been able to enjoy all the potential advantages," Alrosa's chief executive, Vyacheslav Shtirov, told the *FM* "We don't have any reason to change anything We would like to see an extension of the contract on the same terms "

Alrosa officials say the threefold devaluation of the rouble has been beneficial because Alrosa is an exporter and its sales revenues are in US dollars They say they have cut their rouble obligations, mainly overhead costs, substantially

However, since the August crash, the Russian government has introduced tougher controls over foreign currency cash flow

Alrosa isn't saying what its domestic debt is Prior to the devaluation, Shtirov says, the company redeemed about Rbs1,5bn (US$242m) of it, and acknowledges that a large amount remains to be paid off — maybe as much as $200m Devaluation has halved this, a company source claims

But the company has foreign bank loans requiring hard-currency repayment that are unaffected by devaluation

> **>> "I think we are seeing a smokescreen from the company. Production isn't as high as claimed <<**
> *An influential European diamantaire*

According to Alrosa, it has managed to service its obligations and avoid default Loans from Société Générale of France and Nomura of Japan were paid off before August Each was worth about $45m

The principal western lenders to Alrosa are West Merchant Bank, and its German parent, West LB, SBC Warburg, Credit Suisse First Boston, Credit Suisse, and Eurofinance Bank, a Paris-based institution controlled by the Russian Central Bank

SBC Warburg and Credit Suisse First Boston lead a syndicate which has lent $105m to Alrosa, repayable in January 1999

> **>> So far we don't have any reason to change anything We would like to see an extension of the contract on the same terms <<** *Alrosa's chief executive Vyacheslav Shtirov*

It's certain the banks told Alrosa that the extension of the De Beers contract was essential to continue their credit, and that repayment is structured in parallel with Alrosa's deliveries to the CSO

But are the volume and value of Alrosa's deliveries to the CSO enough to sustain the company's credit? "I think we are seeing a smokescreen from the company," says an influential European diamantaire "I don't think production is as high as claimed I don't think revenues are as good I don't think we are getting the whole truth "

On the production side, Moscow diamond industry experts are sceptical about Alrosa's declared intention to produce $1,5bn in diamonds in 1999 According to Shtirov, the figure doesn't represent a real production increase from this year's figure of $1,4bn The reason, he says, is that about $100m of production has been set aside annually to repay a credit from the Sakha republic, and that obligation will have been discharged by the end of 1998

Alrosa acknowledges deliveries to the CSO are already affected by the volume of shipments by Gokhran out of state stocks, worth $320m in the 1998 quota

While Russia's trade agreement with the CSO will preserve its right to deliver a quota of 26% of the value of the CSO's global sales, De Beers expects the value of the Russian quota to shrink by 20%, along with the expected sales total for next year If this year's Russian deliveries total about $1bn, the 1999 figure may be $900m or less Heavy selling by Gokhran to benefit the Russian budget, and sales by the Sakha republic for its requirements, could leave Alrosa's export revenues to the CSO next year at between $300m and $400m

Russian industry sources differ over forecasts for polished exports Ararat Evoyan, head of the Russian Diamond Manufacturers' Association, believes exports of polished this year will be $500m, 10% down on the 1997 level, and domestic consumption would be about $30m

He believes the Antwerp import figure of around $100m for Russian polished in the first half of this year is too low, saying the current market is so bad, polishers are dealing directly with consumers

Direct dealings or "leakage" are a sore point for CSO officials There are as many ways to leak a Russian diamond as there are shepherd's curses

Alrosa and the Diamond Manufacturers' Association argue that virtually everything that Alrosa mines will be sold this year, leaving no surplus for leaking But the mismatch between the domestic and foreign trade figures suggests there may be a surplus of at least $200m That's much less than the Russians unloaded five years ago, but the market is in a more delicate state

De Beers could buy the goods itself or look the other way Both options favour the Russians over other producers

Other Alrosa sources acknowledge that falling diamond prices, falling export revenues, and falling domestic sales won't add up to $1,5bn in sales for 1999 But Alrosa could have an unsold surplus that it's aiming to leak In that event, this week's contract renewal in Moscow is hardly the end of its troubles with De Beers

John Helmer in Moscow

Russia-De Beers diamond deal gets Mbeki's blessing

(216) CT (BR) 25/11/98

MATHATHA TSEDU

Moscow — South Africa was not interested in creating a cartel that controlled the price of diamonds internationally, but it would not stand by while large quantities were dumped on the market, thus forcing prices down

Deputy President Thabo Mbeki, speaking to South African journalists in Moscow at the end of his two-day trip to Russia, said an agreement between De Beers and Almazy Rossi Sakha three weeks ago was designed to help Russia raise money to pay its debts

The agreement was designed to help Russia raise foreign exchange to pay its debts

The agreement ensures that whatever surplus Russia would have dumped on the market would now be sold to De Beers, thus ensuring that the market is not flooded

Trevor Manuel, the finance minister, said while the wars in Angola and the Democratic Republic of Congo were becoming sources of illegal diamonds, these were minuscule compared with what Russia would dump if there had been no intervention by De Beers

Mbeki said "One of the results of (the economic squeeze is that they (the Russians) do have to raise foreign exchange One of the ways of raising that is to sell the things they produce

"So it becomes necessary that we relate to them that there is some kind of system for consultation so that neither country acts in a manner which results in a precipitate fall in prices of these sorts of products"

Mbeki said the agreement came up for discussion several times during meetings with Prime Minister Yevgeny Primakov and with members of the Duma, or parliament, because it is seen as an important step in securing the Russian financial and economic system from collapse

Manuel said an agreement that would redefine South Africa's status from developed to developing country could be signed when President Nelson Mandela visits Moscow

The agreement would open the way for many South African fruits and other products to enter the Russian market under favourable conditions — Independent Foreign Service

Coal mine offers jobs

(816)

By Shadrack Mashalaba

MORE than 300 jobs will be created when the Phakama Colliery joint venture starts exploiting Mpumalanga coal to supply Eskom with the commodity.

The Phakama venture, a partnership between black-owned mining group Sebenza Mining and Amcoal's industrial arm, Acolls, will begin operations early next year

It will create underground, processing and administration jobs

Last week the partners handed over the mining plan and the feasibility study of the Block F Phakama Colliery to Eskom

Next move

Project team head and Sebenza managing director Pius Mokgokong said the ball was in Eskom's court to decide the next move.

He said they were expecting the evaluation to be completed early next year

Mokgokong said the proposed joint venture would deliver two million tons of coal a year to Eskom power stations for 25 years

The fact that the market was guaranteed for the coming years would make the project profitable, said Mokgokong.

According to both parties the proposed new mine was to be developed in response to Eskom's campaign to improve the availability of coal for its generating plant

Higher load

The objective of the campaign was to enable the power station to operate at higher load factors than originally planned, requiring supplies of coal in excess of the maximum levels of production from tied colliers

The Sebenza consortium came into operation last year after its initiation in 1992 It includes individuals, women's groupings and a host of other shareholders

Mokgokong said Sebenza would own 70 percent of the new venture, while Acolls would own 30 percent equity

Sebenza will manage the mining operation with Acolls providing technical and administrative assistance Capital costs for the constructions of the colliery will be shared in proportion to their interest in the partnership

Based on estimated capital cost of R247,6 million this would require contributions of approximately R173,4 million from Sebenza Mining and R74,3 million by Acolls

Sowetan 15/12/98

De Beers plans to run mines on leaner basis

(216)

Rough diamond sales fall to lowest level in a decade, which could lead to stricter quotas

BD 15/12/98

David McKay

DE BEERS is to run its mines on "a leaner basis" next year, which could result in a sharp reduction in capital expenditure and further production cutbacks, possibly by as much as 15%, from its SA-based diamond mines

This follows yesterday's announcement by De Beers' marketing arm, the Central Selling Organisation (CSO), that rough diamond sales for this year were the lowest in a decade

G O'Flaherty Sundelson's Des Mayers said De Beers' year-end dividend for the year to March was also vulnerable and could be cut by up to a quarter "Anything less than this would be mere tinkering," he said

De Beers director Tim Capon said if the recession in retail diamond sales continued next year the corporation would have to adjust accordingly "We have been taking a hard look at costs and we may well run our mines on a leaner basis in 1999 than we did in 1998," he said

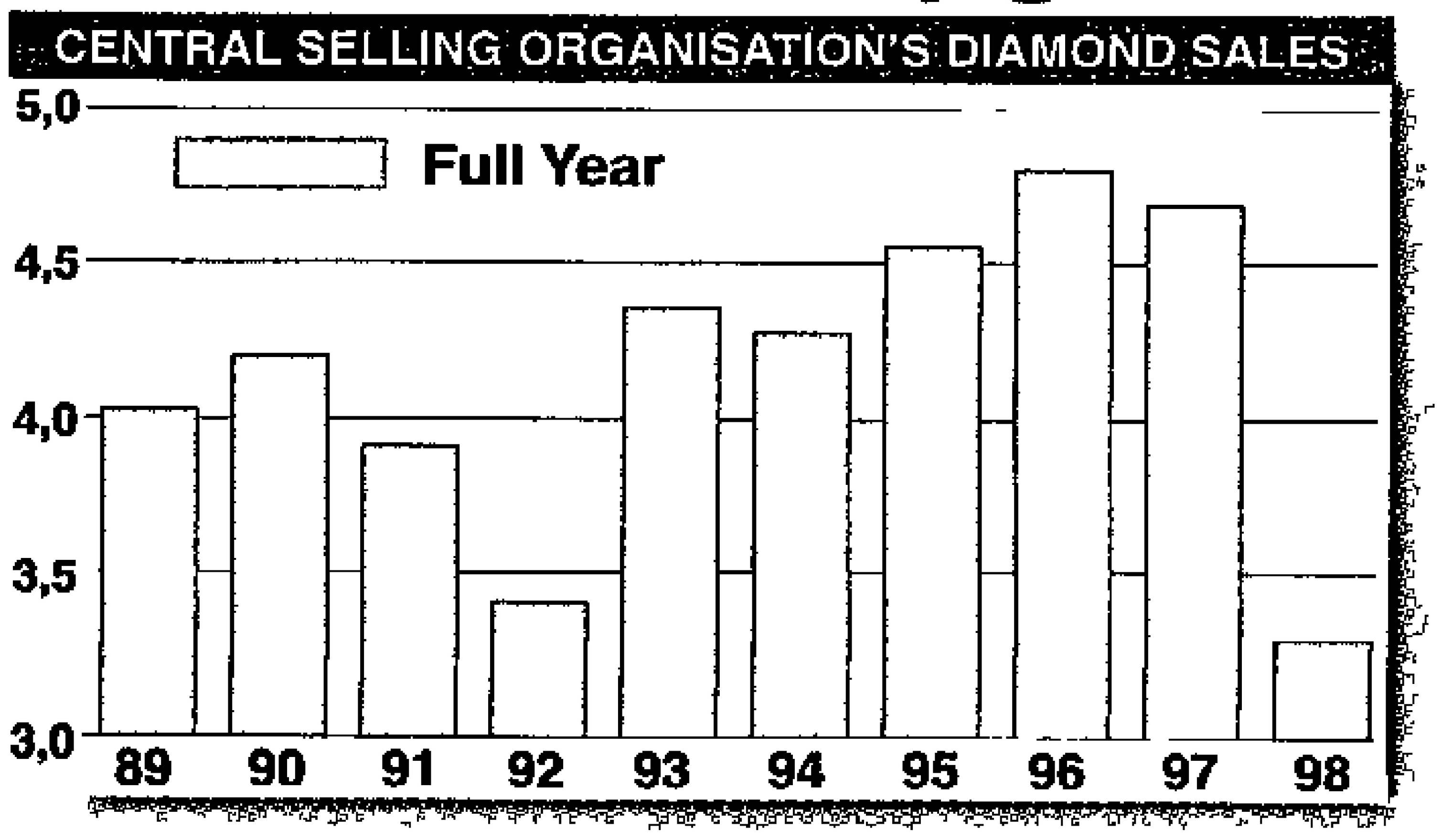
Barnard Jacobs Mellet analyst James Allen said De Beers was cutting back at its Namaqualand onshore operations and further rationalisations could be expected at Namdeb, the Namibian diamond company which De Beers manages "Production from De Beers Consolidated Mines, the SA-listed arm of De Beers, could be 10% to 15% lower," he said

De Beers' SA-based mines operate on a quota basis in which they are asked to stockpile production Stricter quotas could be enforced, effectively seeing the CSO-aligned mines bear the brunt of the diamond-demand crisis in the normally stalwart Japanese market

The CSO reported a 28% decline in rough diamond sales (uncut diamonds) to $3,35bn this year, largely owing to poor demand in Japan However, the group was placing its hopes on good Christmas sales, particularly in the US, which still have two weeks to run

Mayers said US diamond imports were 20% higher this year, but retail sales were only 7% higher. As a result there would be a stock overhang which was likely to carry through to the sights next year

De Beers hits stony ground



Source DE BEERS Graphic MATTHYS MOSS

De Beers conducts 10 sights a year in which rough diamonds are sold to cutting centres As a result, the sights are regarded as a barometer of how well the industry is doing

Owing to the stock overhang, the first few sights of next year would continue to be low in value, maintaining the CSO's poor sales and heightening the chance of a cut in De Beers' dividend One analyst said De Beers' dividend cover would be 1,1, if the dividend was maintained This would represent De Beers' lowest dividend cover since the Second World War

A concern to De Beers must be expectations of flat US sales next year on the back of possible slower economic growth The US market has, with the assistance of good sales in Europe, placed a more respectable complexion on rough diamond sales this year, but Capon conceded the US market could not be a "cure all" Moreover, there were indications that the European banks were restricting credit to diamond processors This would prevail on the CSO to limit the amount of diamonds it could sell into Europe, Mayers said

Capon ruled out a price war as De Beers believed that stockpiling stones until cutters reduced stocks was a better solution However, stones under three-quarters of a carat have been cut in value by 20% to 30%

In the meantime, De Beers' own diamond stocks were rapidly approaching $5bn and representing a cash drain Capon said However, the group had adequate access to funds to keep it well financed

De Beers' share price fell 20c on the Johannesburg Stock Exchange yesterday It is R8,70 or 10% lower this month as it edges towards its 12-month low of R72,10, recorded in August

MINING - DIAMONDS

1999

COAL

SA EXPORTERS JOSTLE TO STAY IN THE BLACK

(216) FM 8/1/99

World market conditions look ready to improve in 1999

The worst may be over for coal exporters, say UK analysts McCloskey Coal Information Services (MCIS) and Australian brokers Macquarie Equities.

The coal industry has been through a tough year but business volumes continue to grow and SA's market share is increasing with them

The Richards Bay Coal Terminal (RBCT) is expected this year to emulate the record throughput levels of 1998, while exports through the alternative ports of Durban and Maputo are also edging up

SA's problem is it could lose market share to the Australians unless new export terminal capacity is built

Proposals to provide this extra capacity include further expansion of the RBCT, the construction of a second terminal at Richards Bay called the South Dunes Coal Terminal (SDCT) and a scheme to boost exports from Maputo using barges to load vessels offshore

According to the latest edition of McCloskey's *MCIS Steam Coal Forecaster*, "despite a world of trade permeated by gloom, the steam coal trade continues to surprise in its vigour Though, inevitably, our forecasts for 1998 have diminished as the year has gone on, they still foresee a substantial volume of growth, amounting to a 13 Mt rise in 1998 to nearly 300 Mt of sea-traded coal "

Looking further ahead, McCloskey predicts a further 16 Mt of growth in 1999, followed by 22 Mt in 2000, taking the total volume of sea-traded coal by then to 335 Mt

Despite continued growth in demand, the coal companies have been stymied by low prices McCloskey notes the main culprits are the Australians, as SA has held its ground

SA coal companies do not publish information on spot price sales but they have held the line this year at about US$24-$25/t free on board (FOB)

McCloskey says by comparison, "Australian prices have dropped to levels undreamed of, threatening the $20 FOB level "

McCloskey expects this to continue into the first quarter of 1999 but then looks for firmer spot price levels in the second and third quarters

Macquarie Equities builds on this, saying spot prices have already started recovering and that large Japanese customers' worries about facing a supply oligopoly could bring further support

That is because coal prices are so low that any further reductions would result in so many additional mine closures that the Japanese would be heavily dependant on a small number of suppliers

One worrying aspect is the sharp cuts in coking coal prices announced late in December Coking coal has different fundamentals to steam coal. It is in huge oversupply but there have to be worries about spillover effects from this price weakness

The RBCT exported a cumulative total of 58,15 Mt to end-November 1998 and is forecasting throughput for the year of 63,5 Mt The 1997 level was 62,3 Mt That growth should continue in 1999 to reach the new terminal throughput capacity of 66 Mt/year The next step is to achieve 69 Mt/year, but that's about the ceiling on the RBCT's "brownfields" expansion, anything more would require major capital investment

The major RBCT shareholders seem to believe that about 70 Mt/year is the sustainable limit of the terminal's exports, so they are not keen on further heavy capital investment

Smaller companies — or large ones excluded from the RBCT, such as Iscor — that want to boost their export volumes have to look elsewhere

A decision has been stalled since March last year on the proposed SDCT, which could handle another 10 Mt/year A further proposal to boost Maputo's capacity is expected early this year

Maputo harbour's Matola Terminal is now controlled by Namibian-based African Portland Industrial Holdings (API), which has built up throughput from 0,6 Mt/year in 1996 to a forecast 1,2 Mt for 1998 API MD Gerhard van Niekerk says the company will decide in two to three months whether to invest up to R100m to raise Matola's export volumes to about 6 Mt/year within three years and, ultimately, to 16 Mt/year

The problem with Maputo has always been the shallowness of the harbour, which restricts access to vessels of 30 000 t. Richards Bay, by comparison, can handle "Cape"-sized bulk carriers of about 100 000 t

API's plans are to load "Cape" vessels just outside Maputo harbour using tugs and barges

The coal-handling facilities at the Matola terminal would be upgraded immediately to handle about 16 Mt/year and the number of tugs and barges built up as the trade volumes grow

It is not yet clear whether coal market conditions will support both the SDCT and an expanded Matola terminal

The immediate problem for JSE investors is the limited choice of shares after the takeovers of Ingwe and Amcoal There are now just two listed coal stocks — Duiker and Hwange Duiker is the only reasonable choice, given that Hwange's management does not have a free hand and is subject to the whims of the Zimbabwe government, its controlling shareholder

Brendan Ryan

DE BEERS

Nicky dances to a different drumbeat

~~2157~~ (2-16) CT(POR) 15/1/99

DONALD MCNEIL

A diamond cartel is for ever, Oppenheimers nearly so Periodically the death rattles of the cartel, which sets prices for most of the world's uncut diamonds, are said to be heard

In 1905 it was synthetic diamonds In 1942, Roosevelt's anger. In 1960, Russian finds In 1977, Israeli hoarding In 1983, Australian finds and Zaire's defection. Each time, the cartel outwitted fate

It has different names, but the cartel is De Beers and De Beers, like Anglo American, is the Oppenheimers

Now the third generation is officially in charge Nicholas Frank Oppenheimer, 53 — also known as Nicky, or the Cuban because of his beard — became chairman of De Beers a year ago. He is not having an easy time Last month the company announced that because of falling Asian demand, it sold fewer diamonds than it had for 12 years, a mere $3,4 billion worth.

In company lore, Oppenheimer's grandfather, Sir Ernest, was the daring entrepreneur, his father, Harry, the philosopher king And Nicky is — well, something different.

He wears funny socks and is relaxed enough to be photographed pounding an African drum with miners at a company ceremony At the same time, he negotiates billion-dollar deals with the Russians "It's much nicer to be known as Nice Guy than Nasty Guy," he jokes "But you've got to have lines. And when you hit the line, that's the end of the story, nice guy or not."

In London Oppenheimer commutes by helicopter, which he pilots In South Africa he has his own cricket team and stadium In return for a donation to youth cricket, his team gets the first match with visiting national teams

In public Oppenheimer often pokes fun at himself His obligatory military service in the 1960s, he says, was spent as second in-command of a parking lot near Pretoria, signing vehicles in and out. "The army taught me to sign my name very quickly, and that's stood me in good stead the rest of my life."

His own personality is in stark contrast to the ruthless reputation of the cartel's Central Selling Organisation (CSO) in London, which buys an estimated 70 percent of the world's rough diamonds.

The CSO is still capable of freezing out diamond dealers who cross it. But Nicky Oppenheimer has brought warmth to the business, running the CSO since 1985 in a way very unlike that of his icy uncle Phillip

Nicky is, for example, not afraid to admit that diamonds are intrinsically worthless "except for the psychological need they fill" Nor does he mind calling a cartel a cartel, though he prefers "single-channel marketing"

And he views with wry amusement the fact that he cannot visit the US, by far the company's biggest market, because of a legacy of unresolved antitrust cases

He has been there in the past to ski and to see relatives, but since an indictment charging De Beers with fixing the prices of industrial diamonds more than four years ago, no De Beers director will enter the US for fear of being subpoenaed.

"It's a strange thing," he says "Here I am a believer in free enterprise and competition, all the good liberal values, and yet I'm chairman of a business which talks ultimately about single-channel marketing, control, all those sort of things."

At the moment he is reorganising the De Beers-Anglo-Minorco consortium into Anglo American plc He denies what some analysts say that the planned move to London is a way for Anglo to improve its image in the US.

As a result of the reorganisation, hundreds of De Beers workers on the Anglo payroll are being shifted back to De Beers And De Beers has moved its head office out of Anglo's Johannesburg headquarters to Gold Reef City

But the cross-ownership between De Beers and Anglo is not being undone, nor is the Oppenheimer stake in both, Oppenheimer says De Beers still owns roughly 40 percent of Anglo, essentially as a cash cow and as collateral for the billions it must borrow to get through bad diamond years To keep diamond prices rising gently, De Beers must buy and hold raw stones When jewellery demand sinks, that is expensive.

Oppenheimer says it is "rubbish" that the family controls both De Beers and Anglo, because it "directly owns" only 8 percent of Anglo — the family line for decades. He is also the non-executive deputy chairman of Anglo, while his son Jonathan, 27, is rising through the Anglo ranks in Zimbabwe.

While professing no interest in politics, Nicky enjoys good relations with the new government. He is on the board of Nelson Mandela's Children's Fund and he signed the deals that arranged for black ownership of substantial portions of two Anglo subsidiaries, Johnnic and JCI

"There were many years in the 1980s when there was absolutely no contact between Anglo and De Beers and the government," Oppenheimer says

"With the present government, things have finally become normal One feels the government is doing what it should in supporting business endeavours, and that's extremely healthy" — The New York Times

De Beers gives black business a big leg-up

(216)

30/1/99

Johannesburg – The world's leading diamond producer and marketer, De Beers, signed a deal yesterday that gives black business a significant stake in diamond mining and exploration in South Africa

The transaction involves the high grade Marsfontein mine near Potgietersrus in the Northern Province.

De Beers said it was transferring its 60% stake in the mine, which it holds in a joint venture with Canadian-listed Southern Era Resources, to a new company, Newco, with effect from January 1 this year in return for a consideration of R200-million

De Beers will then sell off up to 49% of this company to a consortium of black economic empowerment partners consisting of New Diamond Corporation (NDC), Domba Investments, Umnotho we Sizwe Investment Holdings and Vuwami Projects

Marsfontein, which began production in mid-1998, earned almost R460-million from diamond sales in a six-month period

Although small – in De Beers' terms – the mine is in the rare, fortunate position of having not only high grades, but high value per carat

Of 116 000 tons treated at a cost of about R200 per ton from the MI Pipe at Marsfontein, 532 337 carats were recovered This equated to 457,16 carats per 100 metric tons – far above the industry average – at a price of R861,96 a carat

De Beers managing director Gary Ralfe said there was also "blue sky" potential at Marsfontein, which should be producing, albeit at a lower yield, well into 2001 There are plans to exploit a mineral resource on a farm to the east of the mine

Mr Ralfe, who described Marsfontein as "an extremely rich mine", added, however "Nature delivered a curved ball in that it's only a small pipe"

The structure of Newco will see De Beers with a 51% stake, NDC 24%, Domba 5% and Umnotho we Sizwe and Vuwani both with 3%

Mr Ralfe said a 14% interest in Newco was being held in trust "for other partners who could bring in value"

De Beers is helping other stakeholders to buy into the project with non-recourse finance at what it describes as "competitive interest rates"

De Beers stated. "The primary aim of the transaction is to develop Newco and position the company to participate in future diamond mining ventures, several of which De Beers is pursuing in the vicinity of Marsfontein

"Newco is poised to examine the viability of certain existing De Beers propects which are currently lying dormant," the company said – Sapa

De Beers signs empowerment deal worth R100m

(alb) ARG 30/11/99

Jonathan Rosenthal

Johannesburg — De Beers, the world's leading diamond company, signed a R100 million black empowerment deal yesterday over a small but rich diamond deposit in the Northern Province.

The deposit, however, only has an expected life of about a year.

The deal gives black-owned mining companies and community groups a 21 percent stake in the Marsfontein mine, a De Beers and Southern Era joint venture. It dilutes the De Beers beneficial stake to 30 percent but leaves De Beers with control over the venture, which came into production six months ago and has produced $79 million worth of diamonds.

De Beers said it had valued its 60 percent share of the Marsfontein joint venture, half of which it was now throwing into the empowerment pot, at R200 million. The real value of the mine is believed to be far higher.

The largest of the empowerment partners is New Diamond Corporation (NDC), a consortium of Kwezi Mining, headed by Tiego Moseneke, Letlotlo Investments and African Renaissance.

Gary Ralfe, the managing director of De Beers, said that although the project had a limited life it would allow the empowerment partners to rapidly generate capital for investment in other projects. He said De Beers was hoping to involve its new partners in other ventures and hinted that, since De Beers does not have a small mining division, the partnership could develop many of the smaller deposits found within South Africa.

Ralfe said the intention was to be able to have a company that was earning value and creating capital to invest in other projects.

He said the NDC was also involved in the De Beers bid for a management contract of Alexkor, the ailing state-owned mine, and that the empowerment deal also allowed for a transfer of skills.

Moseneke said that NDC was able to tap the considerable skills base of black professionals in the industry and hoped to be able to operate its own diamond mines shortly.

"We are already looking at a number of properties that we can exploit," he said.

Analysts said the purchase, financed by De Beers at competitive rates, appeared to have been at a significant discount to the value of the mine and represented a sweet deal for the empowerment partners. They said risks on the mine were relatively low, most of capital expenditure had already taken place and the ore reserve was fairly predictable.

De Beers closed 100c firmer at R87 yesterday.

power is economic

Sowetan 1/2/99

Diamonds deal sealed

(216)

By Shadrack Mashalaba

GIANT diamond mining group De Beers on Friday announced a R200 million deal formalising the formation of a new major black empowerment company for exploration and mining in Northern Province

The new joint venture company – New Corporation (Newco) – has been set up for the mining and exploration of the Marsfontein mine near Potgietersrus

The transaction, effective from the beginning of January, will see De Beers shedding 49 percent of its interests in Marsfontein to black empowerment partners, a mining venture in which it has 60 percent in a joint venture with Canada-listed SouthernEra Resources

Empowerment partners in Newco include New Diamond Corporation (made up of Letlotlo, Kwezi and African Renaissance), Domba Investments, Umnotho we Sizwe Investment Holdings, Vuwani Projects and 14 percent held in a trust

De Beers managing director Gary Ralfe said the partnership would add value to the project "The partnership is not tokenism nor financial enhancement arrangement, but a partnership of enhancement of skills"

Ralfe said the mine would produce high grade and high value carats The mine has already produced 116 000 tons in the past six months

"The objective of this venture is to develop the company to participate in future mining ventures not only in the Northern Province but the country," Ralfe said

NDC is also partnering De Beers in a joint bid for the Alexkor management contract Their partnership is called Namaqualand Diamond Mining Consortium

A joint ministerial committee composed of the Ministries of Trade and Industry, Minerals and Energy and Public Enterprises is still reviewing the applications of the three consortiums – including NDMC – that have made bids

De Beers will be providing finance to the empowerment partners at competitive levels

The board of the company will consist of one director form each of the parties participating in the transaction

Kwezi director Tiego Moseneke said the deal presented a real opportunity as a base for the black empowerment groupings to be significant players in diamond mining

Moseneke said the association with De Beers would develop the empowerment groups' financial and technical capabilities

Empowerment deal gets mixed reception

Reneé Grawitzky BD 1/2/99

(216)

DE BEERS' first black economic empowerment deal — involving the sale of a portion of its 60% stake in the Marsfontein mine in the Northern Province — has been welcomed by some analysts, claiming "this was not tokenism", while others say it was politically motivated

The long-awaited deal, unveiled by De Beers on Friday, will ensure that its 60% stake in the mine — which was a joint venture with Canadian-listed SouthernEra — will be transferred to a new company, Newco, with effect from January 1

De Beers has agreed to sell off up to 49% of this company to a consortium of black economic empowerment partners for R200m

The new partners in this venture include New Diamond Corporation, Domba Investments and Vuwani Projects New Diamond Corporation, which comprises Kwezi Mining, Letlotlo Investment Holdings and African Renaissance Holdings, also form part of a consortium with De Beers in a bid for the two-year management contract of Alexkor, the Northern Cape state-owned diamond mine

The deal was announced by De Beers only days before government makes a decision about the successful bidder for the Alexkor contract The De Beers consortium is one of three short-listed companies being considered

De Beers said it had priced the transaction to "create value in Newco for reinvestment by Newco in future diamond mining projects" De Beers has agreed to finance the deal at competitive interest rates

Barnard Jacobs Mellet analyst James Allan said the deal was not a surprise as De Beers indicated last year when it bought the mineral rights that it would seek a black empowerment deal He said "This is no tokenism deal and real empowerment is taking place here"

The mineral rights to the Marsfontein farm was the subject of a major battle SouthernEra was about to start mining at the site when a number of heirs emerged unexpectedly They registered their rights to the land and optioned them to De Beers for R75m An agreement was later struck between the parties

Some analysts said during the height of this dispute there appeared to be an understanding with government that if De Beers bought the mineral rights it would have to bring in an empowerment group

DE BEERS & ALEXKOR

(216)

THE PROSPECT OF FINDING BLACK DIAMONDS

FM 5/2/99

De Beers promotes black empowerment in the diamond industry

De Beers last week took the wraps off its first foray into black empowerment in diamond mining, at Marsfontein, and introduced its principal partner — New Diamond Corporation (NDC) This is also the partner with whom De Beers has teamed up in a bid for a much bigger fish, the State-owned Namaqualand diamond producer, Alexkor

NDC will hold a 24% stake in "Newco", the company created to receive 60% of the cash flow from the Marsfontein Joint Venture (JV) which operates the Marsfontein diamond mine near Zebedelia in Northern Province De Beers holds 60% of Marsfontein JV, with the remaining 40% held by Canadian mining junior Southern Era De Beers fought a bitter battle with Southern Era to acquire the controlling stake in Marsfontein, specifically because it viewed the tiny, but rich deposit as an excellent way to kick off its black empowerment mining programme

NDC and De Beers are also bidding to acquire the initial two-year management contract at Alexkor — an alluvial and ocean diamond mining operation extending from Alexander Bay to Port Nolloth in the Northern Cape

De Beers has transferred its 60% of the Marsfontein JV into Newco for R200m and holds a 51% controlling stake MD Gary Ralfe says that is intended to create value in Newco for reinvestment by the company in further diamond mining projects

Barnard Jacobs Mellet analyst James Allan agrees, describing the R200m price as "conservative", though De Beers will not provide estimates on Marsfontein's expected revenues and profitability

The main shareholder in NDC is Kwezi Mining (40%) with the remaining 60% split evenly between African Renaissance Holdings and Letlotlo Investment Holdings

"The agreement with De Beers extends far beyond merely a financial partnership and includes such aspects as the transfer of mining skills," says Kwezi Mining MD Tiego Moseneke "I believe NDC will soon be able to develop and run its own small diamond mines In terms of the management bid for Alexkor, NDC will provide 30% of the management team in black professional staff, like mining engineers"

The other black empowerment shareholders in Newco represent local business and community interests and are Domba Investments (5%), Umnotho we Sizwe (3%) and Vuwani Projects (3%) The remaining 14% of the Newco stock is held in trust

De Beers divisional manager John Hughes says Marsfontein is a tiny project with a limited life— perhaps only until the end of the year — but that it could provide a springboard from which to develop other small diamond deposits in the surrounding region He won't be pinned down on details, saying only "There is great scope for another little mine to be set up and run here in the near future"

Strategically, Marsfontein is small beer compared with Alexkor, where government is way behind schedule in choosing a manager for the mine for the first two-year phase of its privatisation

Alexkor — which has been losing money for the past three years — is viewed by the diamond industry as a badly managed operation which owns extensive beach, land and marine deposits that could prove valuable if explored thoroughly and mined efficiently

The field has narrowed to three contenders De Beers/NDC, Namibian Minerals Corporation (Namco), and Nabera Mining, a consortium of Petra Diamonds, Salene Mining and Mmakau Mining

Allan says logically De Beers should win the tender because it has by far the most to offer in marine and land diamond mining experience

The Nabera consortium has limited marine mining experience Salene is the mining holding company of Loucas Pouroulis, developer of the failed Lefkochrysos Platinum mine, Petra operates a small alluvial diamond mine at Port Nolloth and is run by Pouroulis' son, and Mmakau Mining's MD is Bridget Radebe, wife of Public Works Minister Jeff Radebe Namco, listed in Namibia, plans to list on the JSE It operates a successful marine diamond mining operation in Namibia but has no experience in land diamond mining Last October, Namco appointed former Gauteng premier Tokyo Sexwale as a director

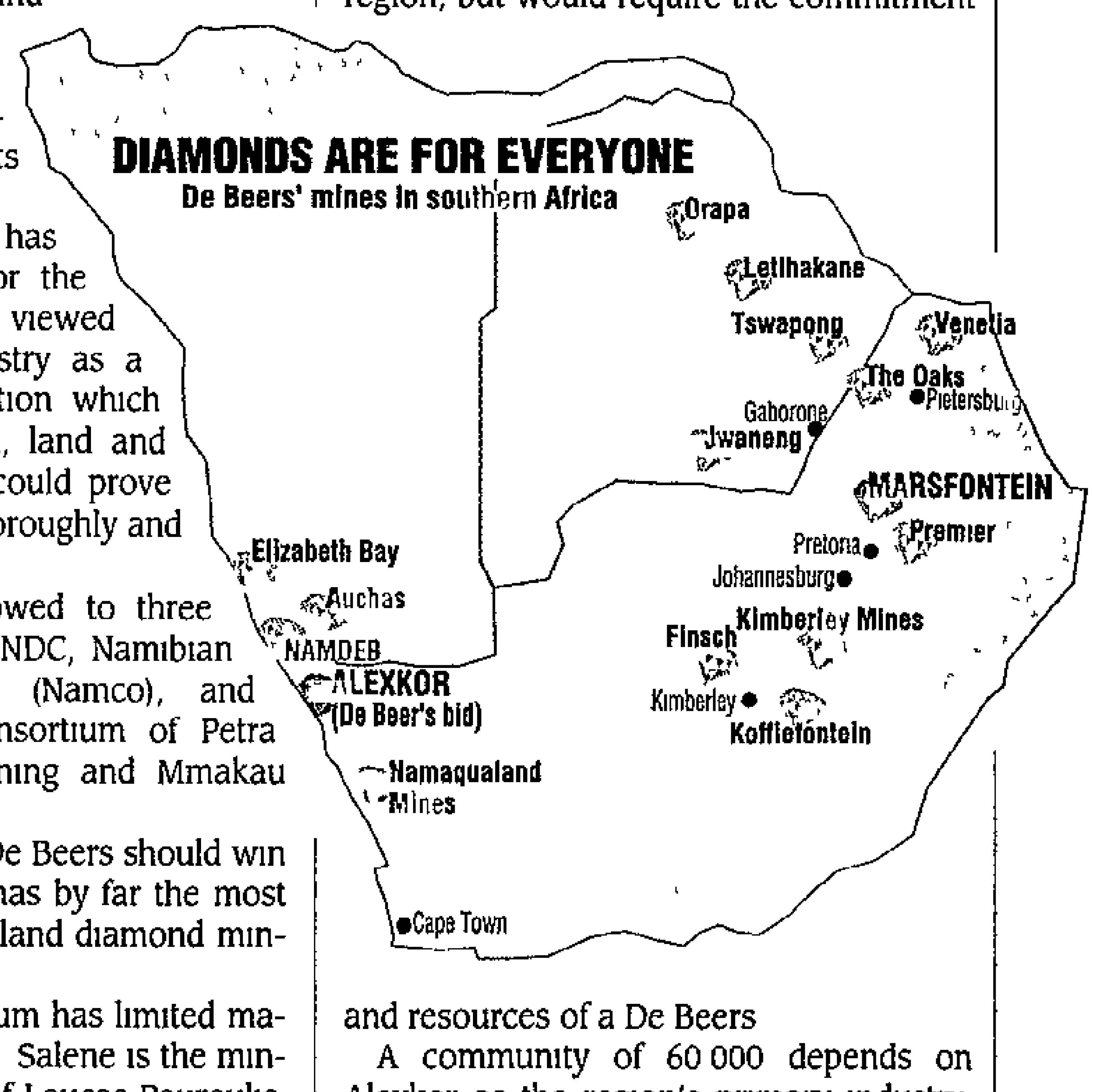
De Beers, meanwhile, is best placed in terms of infrastructure because Alexkor is adjacent to the De Beers Namdeb operation in Namibia and its Namaqualand mines south of Port Nolloth It also has the greatest financial and technical resources for exploring the Alexkor ground and improving the efficiency of the treatment plants

Most importantly, it would best be able to beef up Alexkor's notoriously bad security in the mining, recovery and prospecting plants

"This has undoubtedly led to a downgrading of the quality of information obtained and probably implies that many areas should be re-assessed," says Allan

Hughes says De Beers believes crime syndicates are using Alexkor as a conduit for diamonds stolen from Namdeb and other mining operators in the region

Containing theft from Alexkor would benefit the entire diamond industry in the region, but would require the commitment and resources of a De Beers



A community of 60 000 depends on Alexkor as the region's primary industry Given the State's tardiness on the issue, a swift decision has become necessary The temptations of political correctness and cronyism should not deflect government from making the best choice for the region and the industry as a whole

Brendan Ryan

RUSSIAN DIAMONDS 216

MOSCOW COULD SPRING A LEAK ON DE BEERS

If a plan now circulating in the Kremlin comes to fruition, there will be a fresh flow of Russian diamonds on to the market after midyear — and they won't be from the De Beers' network

Russian government and industry sources say a decree is being drafted for President Boris Yeltsin to sign that would legalise the export of Russian rough stones outside the Central Selling Organisation (CSO)

The decree would seek to circumvent a trade agreement between De Beers and Russia, signed last November, which sets annual export limits for Russian diamonds and prohibits sales outside the CSO channel Not only would such a decree undermine the agreement, but it could raise world supplies and depress prices of the small stones Russia seeks to export Trade sources say the price of these diamonds fell by about 15% in 1998

Russia's main diamond miner Almazy Rossii-Sakha (Alrosa) says output from the mines this year will be worth US$1,5bn — 7% above last year's figure But it comes amid falling demand in Russian domestic diamond manufacture and a drop in the CSO's quota for Russian rough exports "It doesn't make economic sense to buy any more of those diamonds," says Valery Morozov, head of the largest diamond manufacturer in Russia, Ruis Diamonds

Under the trade agreement with De Beers, Russia's exports may not exceed 26% of the CSO's annual sales These fell 28% in 1998 to $3,345m, capping Russia's rough exports at $870m Alrosa is obliged to share this with the State treasury (Gokhran), whose stockpile of mostly small diamonds is worth more than $2bn, and with the republic of Sakha, which depends on diamonds

FM 12/2/99

for budgeted revenue

German Kuznetsov, head of Gokhran, has been telling De Beers officials he is under pressure to produce more cash for the federal budget During the trade deal talks last year, Kuznetsov offered De Beers two options to help him generate more revenue from the stockpile De Beers could lend $1bn to the Russian government, with security and repayments to come from using the stockpile as collateral, or the CSO could raise its quota for Russia's small, Indian-type diamonds by $100m-$200m

De Beers turned down both proposals But it is since having to rethink them because of Moscow's efforts to evade the contract with De Beers and start shipping stones — stockpiled and new — to India's cutting factories

The CSO doesn't want to add to its stocks in today's depressed diamond market It rebuffed the Russians' request to increase their quota because other suppliers, and De Beers' own southern African mines, are having to cut production and because the CSO's unsold stocks have grown

From 1993 to 1996, Russia exploited a loophole in its trade agreement with the CSO to export rough stones on consignment to cutting factories in Israel and India The flow of these goods — termed "leakage" by CSO officials — was worth about $500m a year

Closing the loophole was a prime condition of De Beers' negotiators when the old trade agreement expired and they were drafting the new one A decree by Yeltsin in July 1997 had appeared to rule out consignment trading, thus paving the way for the agreement to be signed

Russian diamond manufacturers say they don't intend to violate the ban But many observers believe the renewed activity in diamond policy-making inside the Kremlin can mean only one thing — Russian rough will begin leaking again soon. John He[illegible]er, Moscow

MARINE DIAMONDS

(216)

TRYING TO GET TOGETHER ON THE HIGH SEAS

FM 19/2/99

Benco, Trans Hex and ODM check each other out

Benguela Concessions (Benco), Trans Hex and Ocean Diamond Mining (ODM) are taking a hard look at each other but it's by no means certain they will combine into a "mini-De Beers"

Such a merger could make a lot of sense, but it's been considered before without success The problems to be overcome include clashing personalities, corporate fiefdoms and relative share price valuations

This time around it seems the success of competitor Namibian Minerals Corp (Namco) has focused the minds of the three SA diamond miners on the issue of "critical mass"

In the space of a year Namco has gone from nowhere to second place behind De Beers in the marine diamond mining league with annual production of 150 000 carats from its mobile underwater mining system, NamSSol

Namco has given the go-ahead for a second NamSSol to be built in Cape Town which will more than double output to at least 300 000 carats Industry leader De Beers Marine produces around 500 000 carats annually

Namco's current production level pips Rembrandt-controlled Trans Hex, which traditionally has been the second-largest diamond producer in SA after De Beers, and it is nearly double the combined output from Benco and ODM

Trans Hex, which mines mainly from alluvial deposits along the Orange River in Namaqualand, produced 143 000 carats in the year to end-March 1998 It reported production running "15% below budget" in the six months to end-September

Benco produced 25 000 carats in the year to end-May and ODM is forecasting 62 500 carats for its current financial year to end-March

Put them all together and you would have a group producing around 230 000 carats annually, split about 60-40 between land and sea operations

But winning agreement is going to be tricky even though the companies already have operating joint ventures and strategic alliances in place

Benco negotiated a JV in 1997 to explore three of Trans Hex's marine concessions off the Namaqualand coast Trans Hex and ODM teamed up to bid for the contract to manage State-owned Namaqualand diamond producer Alexkor, which is being privatised

All three companies decline to comment, saying they have agreed not to talk to the media while the JSE cautionary announcements are in force

What's under way is a preliminary look at each other's assets There are obvious synergies between the three and they have several goals in common, such as expansion, which will involve heavy capital expenditure on exploration and new equipment

Such a merger must have cost benefits All three are under the whip from depressed diamond market conditions, which have knocked the prices of even the high-quality gems they all produce

But there are several obvious sticking points ODM — the most efficient and consistently profitable of the marine diamond miners — seems less than impressed with Benco's recovery vessel, the *Moonstar*

ODM management apparently believes it to be old and inefficient Benco's mining operations have been hit by bad weather and poor recoveries over the past year It lost R5,34m in the six months to November, to be added to the group's accumulated loss of R176,6m at end-May

ODM, by contrast, has made R30m in attributable profits in the past two financial years to end-March, during which time it has paid virtually no tax

ODM came into tax for the first time in the six months to end-September, when it had to cough up nearly R1m to the Receiver

That must make Benco's accumulated loss look rather attractive, a fact that Benco CEO Richard Shead will no doubt emphasise

Analysts say Benco needs to find a strong partner to replace mining group BHP, which pulled out two years ago, and Shead was put in last year to make it happen

Then there's the question of Rembrandt's attitude to its diamond mining subsidiary Trans Hex and what value it attributes to the shares, which are now around R20

"Scuttlebutt" circulating at the recent Cape Town mining conference was that Rembrandt considers Trans Hex a noncore asset and is prepared to sell out, but at R40-R45/share

Trans Hex MD Neel Hoogenhout denies this "Definitely not to my knowledge and I trust I would be the first to know about it"

Let's not forget Namco, which has brought this situation to the boil It wants to expand into SA and is trying to get a listing on the JSE

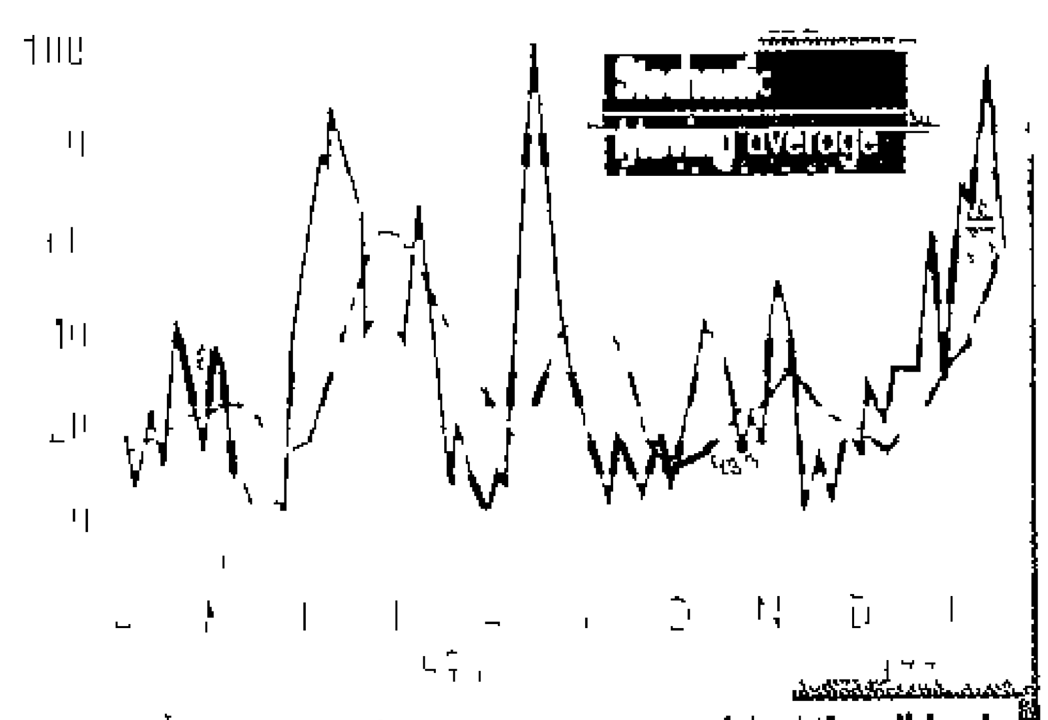
Last year it appointed former Gauteng premier Tokyo Sexwale as chairman of Namco SA and it is also pitching for the management contract at Alexkor

Back in the early Nineties Namco and Benco fought a bitter legal battle over a contested joint venture and Benco came out the winner

What if Namco decides that a good way to expand in SA is through a merger with Benco and finds Shead more amenable than former Benco chairman John Gurney, who resigned at the end of last year?

Brendan Ryan

OCEAN DIAMONDS



The stochastic plotting shows Ocean Diamonds' swift pull-back from an overbought position. Having penetrated the moving average, more loss is expected.

De Beers loses out on Alexkor

(216) ARG 27/2/99

ESTELLE RANDALL

Cape Town — The Nabera Mining Consortium was yesterday awarded the contract to manage the embattled state-owned Alexkor diamond mine in the Northern Cape, paving the way for the mine's privatisation after two years

At the end of its two-year contract, Nabera will have the right to buy a stake in Alexkor, according to government's privatisation advisers HSBC

Nabera, comprising Union Alliance, Salene Mining, Gariep Khoi Investments, Mmakau Mining, the Disability Employment Concerns Trust and Petra Diamonds, was pitted against Canadian-listed Namibian Minerals Corporation, of which former Gauteng premier Tokyo Sexwale is chairman, and the Namaqualand Diamond Mining consortium, comprising De Beers, Kwezi Investment, Letlotlo Investment and African Renaissance

Stella Sigcau, the public enterprises minister, said the decision to award the management contract to Nabera was in line with government policy of encouraging changes to existing concentration of mine ownership through restructuring of state assets

But Nabera faces a tough challenge. Alexkor has been plagued by theft, financial losses and labour problems Conflicting reports over its true value prompted government to suspend the corporation's sale last year and award a two-year management contract to an outside company

Preference in awarding the contract was given to firms in the diamond mining sector which could secure funding for further exploration.

According to its bid proposal, Nabera has credit lines of $10 million and £20 million It would allocate R170 million to further exploration at the mine, of which R50 million would be devoted to marine exploration

'War helps De Beers' bottom line'

RENEWED war in Angola has improved SA diamond heavyweight De Beers' bottom line as supplies from the southern African state are disrupted and prices pushed higher, diamond analysts said yesterday.

De Beers, which controls 70% of the world's diamond market by regulating sales through its Central Selling Organisation (CSO), has earned $800m in two sales so far this year, a 33% increase over last year's levels.

Analysts forecast the CSO was on course to earn $3,7bn from diamond sales this year — 10% up from 1997 — which allowed De Beers to recover from a poor performance last year when Asia's economic downturn bit heavily into profit

Analysts said the diamond price was being pushed higher because of reduced supplies from Angola, where fresh fighting erupted on December 5 between the government and Unita rebels, shattering a 1994 peace accord

"De Beers has been fortuitous because of the conflict in Angola There's been a radical decline in sales out of Angola," said analyst James Allan at Barnard Jacobs Mellet

De Beers shares were up R2,8 or 2,64% at R109 yesterday — Reuter

BD 4/3/99 (216)

Dividend cut prompts drop in share price

CT (BR) 10/3/99

Asia slashes De Beers' profit in half

(216)

JONATHAN ROSENTHAL
MINING EDITOR

Johannesburg — Net earnings at De Beers, which controls about 70 percent of the world's diamond trade, fell 50 percent to $617 million in the year to December 31 as diamond sales across Asia collapsed after the economic crisis in the region, the company said yesterday

It cut its final dividend by 32 percent to $0,52 a share, prompting a 600c fall in the share price to R100

"The results were worse than I had expected," said Allan Cooke, an analyst at Rice Rinaldi Securities "In general the market was not anticipating that the results would be as down as they were

"But it's already water under the bridge and the market is looking to next year's earnings "

Nicky Oppenheimer, the chairman, said 1998 had not been an easy year for De Beers

"But I think what is important is to look behind the minuses on the profit and loss account "

He said the improved sentiment in the retail trade was a positive, as were the improved rough diamond sales in the first two months of the year

Gary Ralfe, the managing director, said steps to restrict the flow of diamonds on to the market and to allow the diamond pipeline to destock appeared to have succeeded

He said $1 billion worth of diamonds had been taken out of circulation and strong Christmas sales in the US had reduced returns from retailers

"This year we have a good prospect of selling rough diamonds at the level of retail sales," he said

He said the Japanese market was still weak but appeared to have bottomed out The worst was over in Asia'

Stephen Lussier, the director of marketing at the Central Selling Organisation, De Beers' selling arm, said he expected market growth in the US, Europe and the Arab states but continued weakness in Japan and the Asia Pacific market

He said the group would take advantage of the new millennium to market diamonds Initiatives included a limited edition release of 2 000 numbered and inscribed diamonds

The millennium campaign would include slogans such as "Every thousand years or so, it's nice to get her something really special for her birthday"

The group said it was continuing its strategic review in a bid to improve shareholder returns But there would not be a "big bang" at the end of the process

Analysts quizzed management on the increasing size of the diamond stockpile, which rose $377 million to $4 8 billion

De Beers uses its stockpile, as well as a quota system under which participating mines cut back or stockpile production, as a method of maintaining balance in the market

Cooke said the market was concerned that there was no tangible return on the $4,8 billion sitting in the stockpile

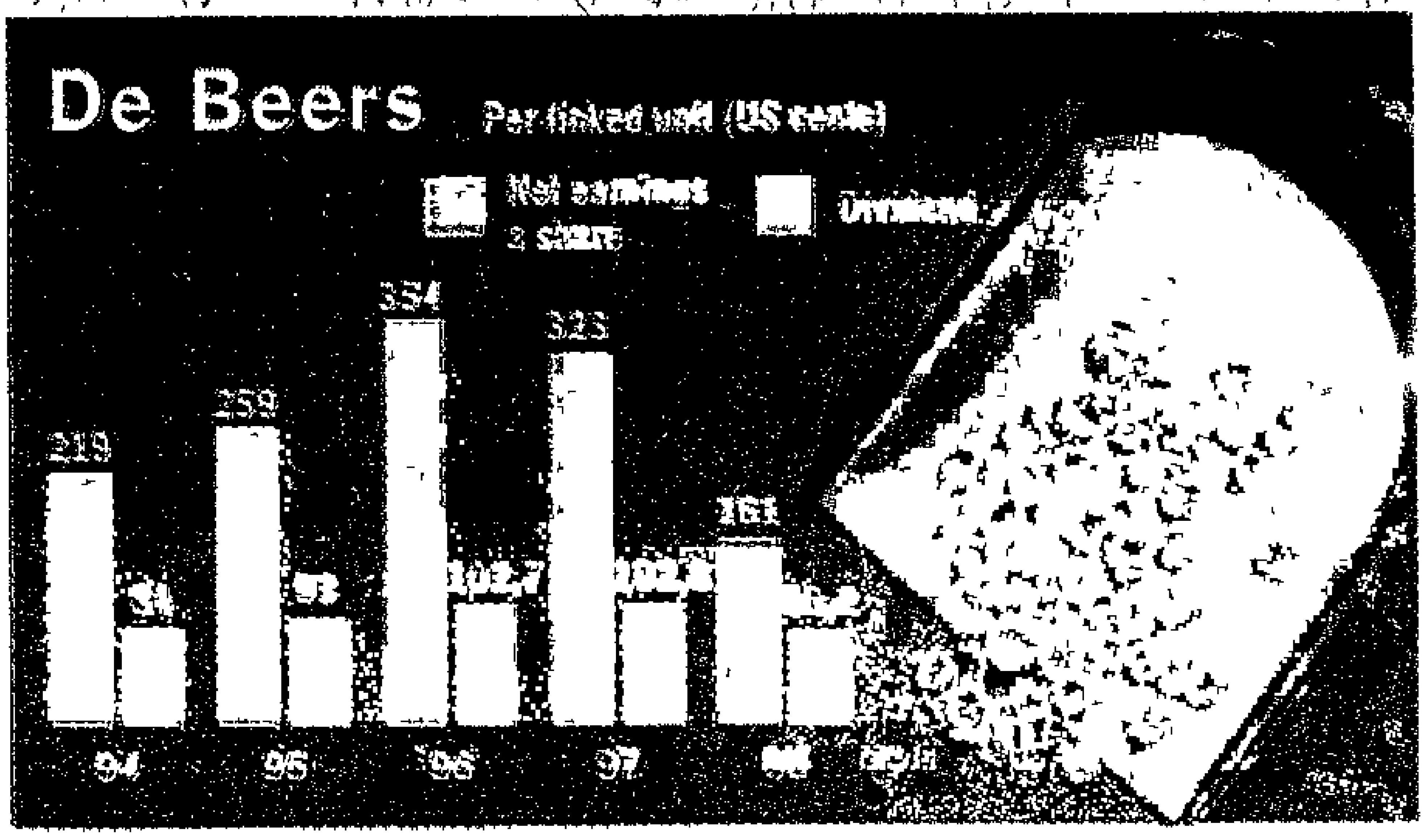
"That is the cost to De Beers of maintaining prices," he said

"The stockpile, when it's growing, is always an issue and the market doesn't attribute any value to the stockpile "

But he said the stockpile would fall once sales picked up next year

LOSING THEIR SPARKLE *Nicky Oppenheimer, De Beers' chairman, and Gary Ralfe, the managing director, hope the millennium will prop up the company's fortunes* PHOTO JOH I [illegible]

☐ **Business Watch, Page 2**



KAREN MOOLMAN Source DE BEERS

De Beers slashes fifth off dividend as earnings dive

BD 10/3/99 (216)

David McKay

DE BEERS, beset by a second successive slowdown in world diamond consumption, has slashed its dollar-denominated dividend by more than a fifth

This comes just as there are signs that the retail diamond market appears to be recovering

MD Gary Ralfe, presenting De Beers' year-end financial results yesterday, spoke of his "enormous regret" in reducing the group's total dividend to \$0,802 a linked unit from \$1,028 in 1997

The combined diamond account, which consolidates the income from SA-based De Beers Consolidated Mines and De Beers Centenary AG, fell 31% to \$585m

Total net earnings, including retained earnings of associates, halved to \$617m or \$1,61 a linked share

Excluding investment income, headline earnings slipped 39% to \$639m or \$1,66 a linked unit

Although the market had been "vigorous" this year, partly owing to a \$1bn reduction in stocks at polishing and cutting centres, a recovery in the world diamond market could be expected only once Japan reassumed its position as a top diamond consumer, Ralfe said

Retail sales of diamonds in Japan fell 19% in 1998 compared to 1997, and 35% in Asia-Pacific Overall, the world diamond market declined 3%, compared with a 5% decline previously

De Beers accordingly scaled back its costs The group's advertising spending for 1999 has been cut to \$170m from about \$200m in 1998 Capital expenditure will fall to \$70m from \$90m last year

Chairman Nicky Oppenheimer said it had been "a difficult and tough year" for De Beers' new management

Last year the group's management became independent from sister company Anglo American De Beers' has simplified but retained a substantial stake in Anglo American which has been termed "a core investment".

It was speculated previously that, in terms of a strategic review started by De Beers last year, the group might reduce its investment in Anglo American

Commenting on the review, Ralfe said returns to shareholders during the 1990s had been "pedestrian" As a result, De Beers was focusing on creating shareholder value in which all segments of the group's business would be studied for their cost benefit

Strong Christmas sales in the US and a reduction in rough diamond supplies from war-hit Angola and Democratic Republic of Congo meant "the markets were feeling a great deal better", Ralfe said

The Central Selling Organisation (CSO) has responded cautiously to this improved sentiment Its policy continues to be to keep supply under control so that any remaining excess polished stocks can be moved through to the market

While the first two sights of the year were better than those of 1998, the recovery is too recent to justify confidence that the market is over its difficulties

It will be difficult for the CSO to increase its sales significantly unless there is an improvement in the Japanese and southeast Asian retail markets or new markets are developed in the region

However, the bottom line was that a recovery in Japan was imperative

Japan currently accounts for about 18% of the world diamond market by value, with the US leading the way with 46% of the market

During the 1992/93 period, Japan accounted for 30% of the world diamond market by value pull something out of a hat to resurrect its counter Rabbits are unlikely "We're happy to stay in the background," says CE Ivan Fallon "Print stocks come in and out of fashion"

With 80% of its revenue derived from advertising, of that 40% from classifieds, Independent must wait for the economy and GDP growth to lead revenue Instead, it is circling its Internet strategy, partly in concert with Vodacom and the rest involving several Internet sites It expects to consolidate its international strategy in Cape Town Latest Adindex figures show print maintaining its share of the adspend pie, but this market could grow increasingly competitive because the long-running restraint of trade barring Independent and Caxton from each other's markets was finally overturned a few months ago

Caxton's deal with Perskor has pulled it out of its focus on community papers and made the group into a weighty player in both the print and publishing universes The deal has been ingested with python-like slowness, but CTP MD Gordon Utian says consolidation is practically finished "The blue print for integration is finalised, but we will be occupied for the next few months sweating those assets and regaining former operating margins of 15%"

Caxton's upcoming results will be hit negatively by three months of losses from Perskor and the share dilution However, its dominance of the local community newspaper market and economies of scale from the merger should propel EPS strongly But it needs to resolve teething problems with its new print facility and its untested mettle in the daily newspaper market through *The Citizen* will shake out in the next few months

Then there are the second-tier stocks, like AME, Kagiso and Sasani, which have mostly borne the brunt of investor nerves AME is outgrowing its greenhorn image and looks underpriced at 53c, as it approaches critical mass Kagiso could blossom with the impact of Radio Jacaranda's performance Brait, which has a 15% equity stake, identified the company as its media vehicle, though not for private equity investments The group, trading under a cautionary, says it will reveal its new CE in a week Hopefully, the new shares issued to buy Radio Jacaranda will improve the stock's poor liquidity

Nonetheless questionable growth rates and risky expansion are evident in the media sector's p e — 11% down on the start of the year The only sexy shares are education stocks like Adved and Privest, which will soon be split into their own sector Naspers and Primedia are both sitting in value territory but any buyers need to be thinking long-term **Tammy Lloyd**

MARINE DIAMONDS (216)

BENCO OPTS OUT AND DECIDES TO GO ITS OWN WAY

FM 12/3/99

ODM, Trans-Hex still talking about a possible merger

The proposed merger between Benguela Concessions (Benco), Ocean Diamond Mining (ODM) and Trans-Hex never looked a sure thing, as we pointed out previously (*Companies & Markets* February 19)

So the news that Benco has opted out should come as no surprise, and the company's grim interim results published simultaneously with the joint statement to shareholders probably provides the main reason

Benco CEO Richard Shead will not add anything to the official statement that the withdrawal from negotiations allows the directors to pursue other opportunities

But you have to ask whether ODM and Trans Hex were prepared to get into bed with a company with such glaring financial problems That's a question ODM MD Andre Louw declines to answer

ODM and Trans Hex are continuing to talk to each other about a merger It seems Benco is now negotiating with two possible alternative partners but Shead declines to comment

One strong candidate, as speculated previously, is Namibian Minerals Corporation (Namco) The *FM* understands at least one meeting has taken place between Namco and Benco

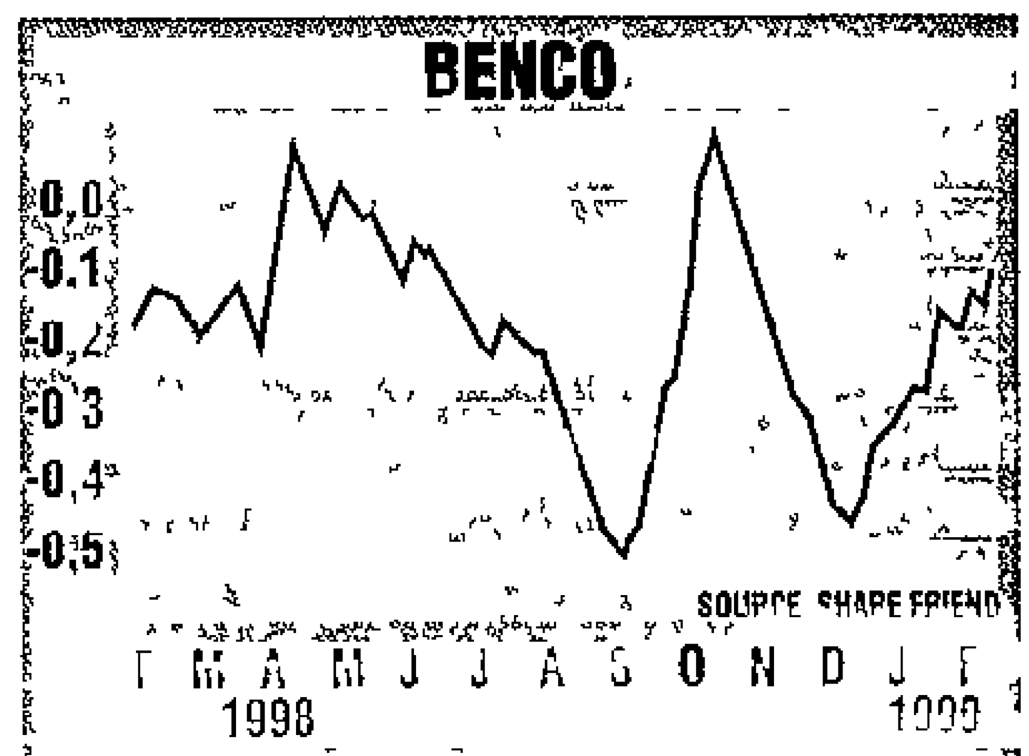
Asked whether negotiations are taking place between the two companies Megan Williams, a director of Namco South Africa, says "not to my knowledge"

There are two other possible companies Benco might be talking to The first is Canadian mining junior Diamond Fields International in which Benco already has a 12,5% stake

The second is Petra Diamonds, the diamond mining company listed on the London Alternative Investment Market and run by Adonis Pouroulis

Petra is one of the major partners in the Nabera consortium which has just been awarded the management contract for Alexkor (See *Economy & Business*, page 54) Pouroulis declines to comment

Benco's interim results for the six months to end-November make grim reading for any prospective partner



The moving average convergence/divergence (MACD) plotting of Benco shows how, as it is moving upwards towards the zero line, the moving averages are drawing closer together This often means a change in trend is likely.

Six months to	Nov 30 1998	Nov 30 1997
Production (carats)	13 356	6 884
Turnover (Rm)	12,9	3,3
Mining Expenditure (Rm)	-12,9	-8,3
Taxed Loss (Rm)	-16,6	-5,3

The company's taxed loss trebled to R16,6m (previous comparable six months R5,4m) despite a marked improvement in production to 13 556 carats (6 844 carats)

Reasons are surging mining and exploration costs and an exceptional item of R6,6m resulting from foreign exchange losses on Benco's restated long-term liability after taking over the recovery vessel, MV Moonstar The effect on Benco's cash position was horrendous, with a negative cash flow of R23,8m recorded (R20,1m positive cash flow)

Just to add insult to injury a diamond theft syndicate has been discovered operating on the Moonstar and is estimated to have stolen between 500 and 1 000 carats during the six months

Benco now sits with net current assets totalling just R1m (R39,3m) It has cash on hand of R8,2m but has to start settling its outstanding debts of R40,5m with the first payment of US$1,63m due on June 30 The current portion of Benco's long-term liabilities is stated at R10,3m **Brendan Ryan**

"But you have to ask whether ODM and Trans Hex were prepared to get into bed with a company with such glaring financial problems. That's a question ODM MD Andre Louw declines to answer"

DE BEERS

(216) fm 12/3/99

HOW TO LOSE R2BN IN A MINUTE

Results are way worse than the market expected

Around R2bn was wiped off De Beers' market capitalisation within a minute of its 1999 results being announced Earnings in rand terms, 11% below consensus forecasts, were bad enough But in US dollar terms, a 39,6% earnings fall and 22% dividend cut tells a tale of a world economy reeling in shock

The glamour of diamonds has perhaps disguised the fact that De Beers is very much a commodity stock With commodity prices at a 24-year low, pressure on De Beers' profitability is understandable Its fortunes rest heavily on world demand for an item that is intrinsically worthless Bottom line is that De Beers thrives or falls on global economic prosperity

Though there is no "diamond price", CSO sales are a reliable proxy Over the past 30 years, the correlation between De Beers' US dollar share price and CSO sales is 81% CSO sales in 1998, at their worst level in 12 years, tell the story Changes such as those recently made to its investment portfolio are ultimately of little significance

The US Diamond Registry notes that overall demand and supply are "fairly well balanced" This results from strong US offtake, up 7%, and an 8,5% increase in CSO diamond stocks to US$4,8bn

Prices of various stone types and sizes have, however, moved erratically Larger yellow stones have fallen "drastically" on low demand from "a dormant Far East market" Significantly capes, those produced by De Beers' own mines, are described as the slowest-moving market segment, with prices down about 25% on 1997 levels The only strength was seen in the US jewellery grade D-H stones On balance, not a healthy market and one reflecting problems in common with most commodities

For more than 60 years, De Beers has controlled the world diamond market with varying degrees of success But little by little its control is slipping

Though a world of "perfect competition" remains the realm of economic textbooks, we are certainly closer to that ideal than at any stage this century Many of the principles are at work One is that a group trying to raise or hold prices artificially will simply attract more suppliers The futile efforts of Opec to hold oil prices is a classic example

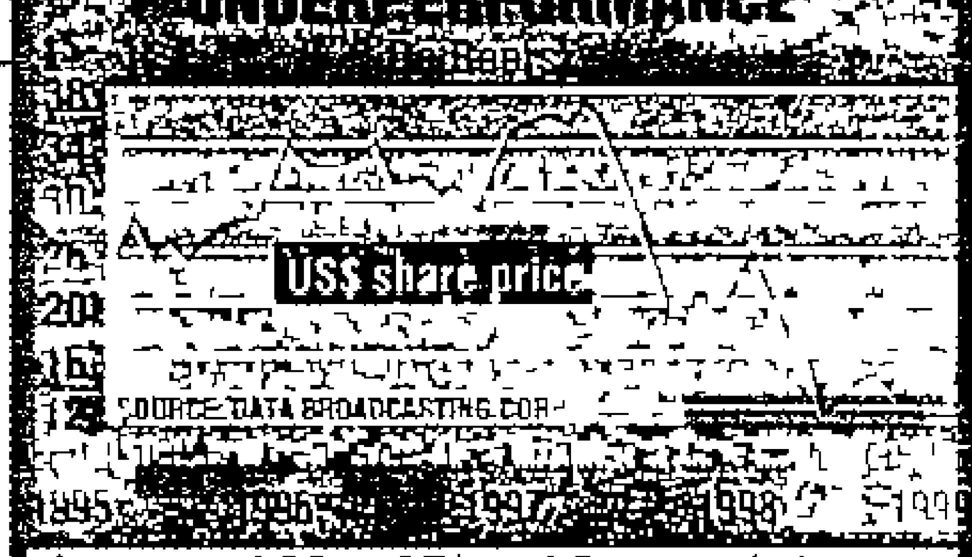
The CSO has had more success than Opec, but at great expense De Beers' long- and medium-term borrowings rose from $886m to $1,4bn in 1998 The market's view of its efforts is a share price that, in dollar terms, has underperformed the gold price and CRB Commodity Futures index since 1993

One by one producers have opted out of selling through the CSO, but in the comfort of knowing that it remains the industry's "central banker", the buyer of last resort Indicative of this happy situation is a comment by the US Diamond Registry on the Russian-Angolan tie-up "Even if they sell large amounts outside the cartel, De Beers will simply support the market by buying on the open market"

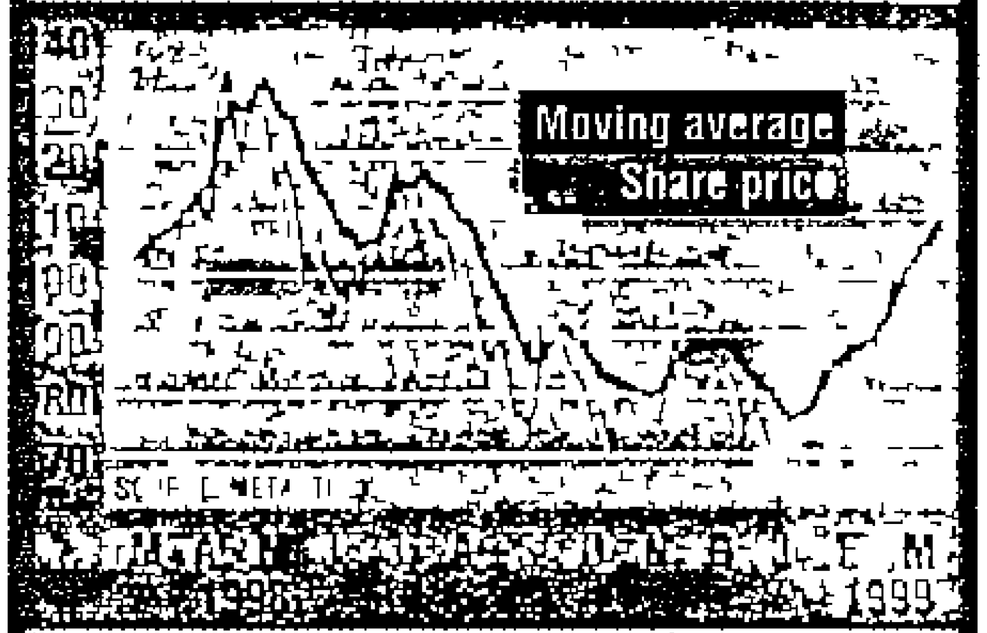
There are signs that De Beers itself is perhaps aware of the futility of its efforts De Beers MD Gary Ralfe commented that if De Beers lost any more market share, it might one day promote only its own diamonds rather than give a free ride to those outside the CSO The free ride costs De Beers an adspend of $200m/year An interesting move is the trial marketing of its own branded diamonds in the UK

Changes may well come from a group study due for completion in August This is perhaps another indication of De Beers' realisation that the old order is passing, though it would never admit it The general impression gained is of a shell-shocked management grappling to come to terms with dynamic changes in economic reality

UNDERPERFORMANCE



US investors must be less than awed by a share that has been outperformed by the gold price.



The daily closing price chart of De Beers plotted with a 13-day moving average shows how, within its strong bull trend, it is dipping down to test the moving average.

Year to Dec 31	[illegible] (Rbn)	Income (Rbn)	[illegible]	[illegible] per share (c)	[illegible]
1994	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1995	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1996	[illegible]	1,23[illegible]	[illegible]	1,147	[illegible]
1997	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1998	[illegible]	1,43	[illegible]	919	470,0
% chg				[illegible]27	

De Beers' fortunes in 1999 will be tipped either way by developments in the US, European and Far Eastern consumer markets

Superficially, all seems well in the US But for the first time in three decades, US consumers have become net borrowers, comforted by the seemingly endless equity bull market How long the US consumer will keep bucking the global trend is a moot point Judged on US manufacturing production, not long

If hope hinges on a revival in the European and Far Eastern economies, it appears a forlorn one European exports, which have been the engine of their recent growth, are declining in the wake of the Asian recession

Japanese diamond consumption fell 19% in dollar terms in 1998 Attempts on a large scale to reflate the economy have been countered by the increasing liquidity preference of a shocked society

De Beers is vulnerable on two fronts — as a producer and buyer of last resort The $5bn diamond stock would be a bonanza in an era of global prosperity Right now, it's a millstone

US consumer demand stands between what is a weak diamond market and a full-scale rout The US itself presents a conflicting picture of an overextended equity bull market underpinning consumer confidence and a manufacturing sector in steep decline Something has to give Investment in De Beers at this stage must be viewed as an act of faith in a global economic recovery Right now that looks a risky bet

Stafford Thomas

JUNIOR MINERS

The new prospectors hit jackpot in seniors' discards

(216) CT(BR) 25/3/99

JONATHAN ROSENTHAL

Strolling past the water features and deep green lawns of the sedate De Beers campus south of Johannesburg, one can easily for get the hardship and pioneering spirit of the early prospectors of the Kimberley diamond rush Similarly, from the elegant Anglo American offices with their pristine view over some of Johannesburg's last mine dumps, it is difficult to conjure up images of the hard men and women who built a city on the promise of gold

And one cannot help but wonder what these captains of the mining industry think as they hear of yet another mining junior making yet another remarkable strike Like Southern Era's discovery on Marsfontein of one of the richest diamond pipes found in recent history.

Or like Mazal Mining's announcement last week that it had found the second largest diamond bearing kimberlite pipe in South Africa, just 50 km from Kimberley, De Beers' backyard

No one is suggesting that the age of the seniors has gone but there are increasing signs that the junior mining sector is starting to kick

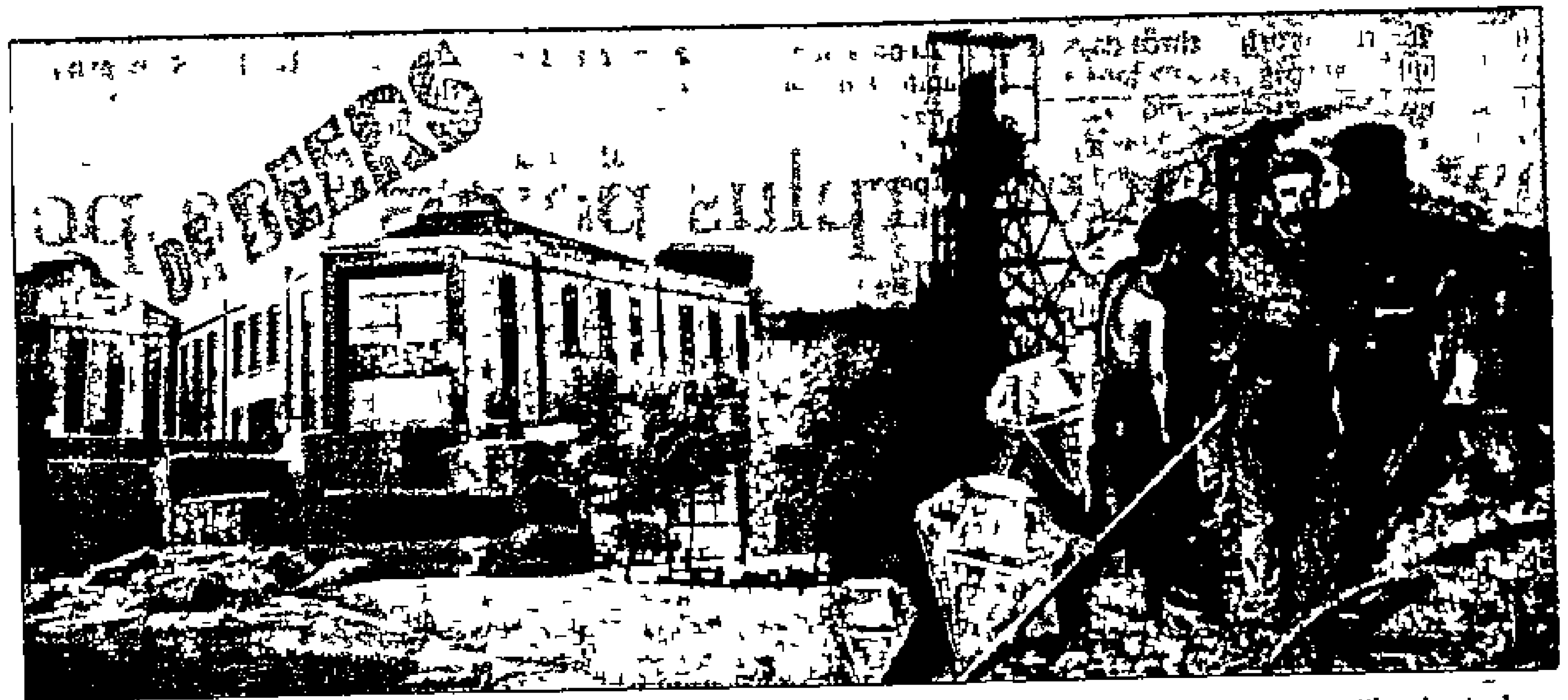
Take Mazal Mining and Exploration which raised R20 million before today's listing on the JSE

When Itzhak Weltsman decided diamond mining in Angola was becoming too dangerous, he loaded a caravan and drove to the Northern Cape looking for diamonds Instead of using fancy drilling equipment with microscopes and mass spectrometers, he looked at the colour of the vegetation read the history and spoke to the farmers

There were few obvious signs at Paardeberg East Exploration crews had come and drilled a few years ago and left empty handed The farmer who owned the land said there was no chance of diamonds and thought Weltsman was pursuing a lost cause

But Weltsman, who says he would rather kick a rock than look at its fragments through a microscope, brought a small earthmover and started scraping The kimberlite pipe that emerged was far larger than even he had expected So he brought in his family and rabbi, and started washing for diamonds while his cousins and brothers watched the machines.

Using simple earthmoving equipment, Mazal has exposed about 28ha of group II kimberlite, a good indicator for the presence of diamonds



Aerial photographs show turn-of-the-century diamond works some distance to the east of the exposed pipe, raising the possibility that it is far larger than the 28ha already exposed

Southern Era, the Canadian listed diamond junior, has a similar story It moved into an area that had previously been explored and with meticulous attention to detail a good eye and even greater luck discovered diamonds on the the Marsfontein farm where the mining seniors had not.

The mine, which came into production in a joint venture with De Beers just over six months ago, has already produced more than $79 million worth of diamonds

Kalahari Gold, the JSE listed gold mining company, found gold simply because it thought to look where the seniors had not Although the occurrence of gold in greenstone is a well known phenomenon (the Australian gold industry would be vastly smaller without it), South Africa's large mining houses prefer to keep looking for the deeper, richer deposits of the Reef and Free State. But under the sands of the Kalahari, running all the way into Botswana, are greenstone deposits, waiting to be mined

And while mineral sands are a lot less sexy than diamonds and gold JSE-listed Southern Mining seems to have hit the jackpot with a potentially massive deposit of titanium, rutile and other heavy metals in Mozambique. Earlier this month, the group attracted R117 million of mostly US capital to investigate the project

Aquarius, an Australian junior with basically one real project, the Kroondal platinum mine, pulled a fast one on the seniors by securing the mineral rights. It has since signed a toll refining contract with Implats

And then off course there is Metorex, exposed to the market through Canadian listed Crew Development. It has been quietly buying and developing projects discarded or overlooked by the bigger houses

So much interest has been generated in junior mining companies that the JSE is finally marketing itself as a listing home for juniors, hoping to win back some of the business that has been swallowed eagerly by Canadian and Australian markets

Ironically, the renaissance in junior mining companies here comes at a time when Canadian and Australian markets are a little wary of juniors.

The reasons are simple Exploration is at the best of times a risky business roughly three juniors fail for each one that strikes it lucky The odds against them have been pushed even higher by two events in the past few years

The first was the collapse in commodity prices, which led to a funding drought for mining companies in general, and juniors in particular.

The second was the Bre-X scandal, in which a Canadian junior claimed to have found one of the world's largest gold deposits A little doctoring of the core samples, apparently by seeding the samples with alluvial gold, and the Bre-X share-price went through the roof — before collapsing when the deception was revealed Now every fund manager from Hong Kong to Sandton worries whether the latest promising junior is another Bre-X.

South African fund managers on site visits to junior projects often have a stock refrain "The project looks great, but we still classify it as exploration I'd put my own money in but not the fund's"

But now, with all the stirrings in southern Africa, and the feeling that most commodities (with the glaring exception of gold) are about to move up, the future may once again be bright for the juniors

MAIL & GUARDIAN
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Diamond Board not De Beers's best friend

(216)

MtG 9-15/4/99 (215)

The government's new diamond valuer has challenged the big daddy of the diamond industry, writes **Mungo Soggot**

A row which could involve millions of rands of tax revenue is brewing between De Beers and the South African government's official diamond valuer The valuer has rejected De Beers's evaluation of a consignment of rough diamonds due for export to the diamond giant's London based marketing arm

It is the first time the valuer, known as the government diamond valuator (GDV), has questioned De Beers s pricing policy and the move is being interpreted by some analysts as a test case.

The unprecedented challenge comes amid tension between De Beers and the state over the role and performance of the new valuer, which was appointed last November by the South African Diamond Board

De Beers had a close relationship with the previous valuer, whose contract even stipulated that De Beers could vet its employees.

The GDV is supposed to advise civil servants on the arcane diamond industry as well as check the value of the $1 billion in rough diamonds South Africa produces annually

The new GDV's price challenge could significantly impact on the relationship between De Beers and the state, with potentially important tax implications the amount De Beers pays in tax to the government stems from the value of the diamonds it exports to its marketing arm, the Central Selling Organisation (CSO)

The GDV has said the value of the diamond consignment in question is higher than that submitted by De Beers, and has refused to pass the export contract.

The diamonds came from a new joint venture between De Beers and a Canadian mining company, Southern Era, in the Northern Province. In terms of the agreement between the two companies, the CSO/De Beers buys the output from the mine, which is called Marsfontein

The CSO controls about 70% of the world's diamonds As one of the world's most successful cartels it regulates diamond prices by manipulating the supply of diamonds to the market.

Moves are already afoot in sections of the local diamond industry close to De Beers to replace the current GDV The GDV is controlled by a Belgian national, Claude Nobels, and chaired by the former head of the Truth and Reconciliation Commission's reparations committee Hlengiwe Mkhize

There are whispers in the industry that the GDV is not up to the job and staffed by inexperienced employees.

When approached for comment on the decision to reject the Marsfontein export contract, De Beers said "A new government diamond valuer has been appointed and a few teething problems occurred We are working hard to resolve the matter within the diamond industry."

But the CEO of the South African Diamond Board, Victor Sibiya, said in an interview this week "I am extremely happy with the GDV It has my full support. One of the things the GDV has done is to bring home the idea of independent valuation."

Sparkling: The diamond valuer has the 'full support' of Diamond Board CEO Victor Sibiya. PHOTOGRAPH: NADINE HUTTON

Sibiya rejected criticism of the GDV's ability, saying it was "the most qualified team in the whole world" Sibiya said the new GDV's team had a collective experience of 200 years, compared with the 80 years enjoyed by the previous valuer, Proval.

Sibiya confirmed that diamond industry representatives who sat on key Diamond Board committees were seeking a nullification of the new GDV contract 'The GDV is appointed There can be no going back on that "

He said it was "ironic" that the same players now gunning for the GDV had been party to its selection by open tender last year

Asked whether he was concerned that the previous GDV had not detected similar price differences, Sibiya said "I think that question answers itself"

Sibiya would not comment on Proval's performance beyond saying, "We will undertake steps to check that these valuations met with the legal requirements."

He also declined to comment on the clauses in Proval's contract which gave De Beers influence over the former valuer

One clause said. "No association agreement shall be amended or cancelled without the prior written consent of the board and De Beers "

Another stated "No member or employee of Proval shall perform any functions as a valuator under this agreement unless he or she has been recognised as a valuator of diamonds by the board and by De Beers Consolidated Mines Limited "

Sibiya was reluctant to address the tax implications of the diamond valuations head on When pressed, he said "It is important that any company in South Africa must realise that there are certain state interests which cannot be superseded by any other interest "

He added "The process of guaranteeing the state's interests is a primary concern of the GDV"

Diamond Intelligence Briefs, the influential diamond industry newsletter which broke the news of the GDV's move last week said the GDV's traditional role was to check that rough diamonds sorted for export from South Africa were consistent with the price categories set out in the CSO price list

The newsletter said the GDV had in this case gone further by declaring that the 'true market value of the Marsfontein goods is significantly higher than the so-called standard selling prices which appear in the CSO price book

But the newsletter concluded the clash was unlikely to trigger a "full scale discussion about the role of the GDV and the mechanism through which the CSO sets its standard selling prices"

It added "Undoubtedly the situation is embarrassing to De Beers " It said the GDV appeared to want to make a "test case" out of Marsfontein

De Beers's joint venture partner in Marsfontein, Southern Era, declined to comment beyond confirming the gist of the *Diamond Intelligence Briefs* report

Maduna tackles gem sector dispute

BD 14/4/99 (216)

Reneé Grawitzky
and Ilja Graulich

MINERAL and Energy minister Penuell Maduna intervened yesterday in the dispute between De Beers and government's diamond valuator to try to unfreeze the export of SA's diamonds, halted for a number of weeks

It is estimated that the revenue from diamond sales makes up 5% of yearly exports — or 1% of gross domestic product

Maduna set up a task team yesterday, led by his director-general, Sandile Nogxina, to investigate De Beers' concerns relating to the responsibilities of the diamond valuator and accountability in the SA Diamond Board

The team will report back next Tuesday and advise the minister on steps to break the impasse

Government's diamond valuator, in terms of the Diamond Act, is appointed by the SA Diamond Board to value diamonds prior to export as all diamonds for export have to be registered with the board

De Beers is concerned by the manner in which the diamond valuator interprets functions in terms of the contract The task team will also look into whether the valuator is fulfilling obligations in line with his contract and responsibilities set out in the act The team would also address De Beers' concerns about corporate governance issues in the diamond board

Since the dispute between De Beers and the diamond valuator first surfaced in February there has been growing concern about the operation of the board The concerns were linked to renewed speculation over last year's appointment of the diamond valuator

The manner in which the contract was awarded to a consortium headed by Claude Nobels and a former senior truth commission member, Hlengiwe Mkhize, was questioned at the time

Industry sources said a lack of transparency over the consortium's composition had fuelled speculation of possible involvement by diamond board members The speculation has gained added impetus from reports that the valuator's package is more than double that of his predecessor

The task team would not probe the appointment of the diamond valuator as De Beers said it did not wish to raise its concerns in this regard.

Task team to examine gem pricing impasse

CT (BR) 15/4/99 (216)

Lynda Loxton
Parliamentary Correspondent

Cape Town – Penuell Maduna, the mineral and energy affairs minister, had appointed a special task team to investigate the Diamond Board's pricing impasse with De Beers, according to a statement yesterday from Maduna's office.

This follows a special meeting on Tuesday between Maduna and Gary Ralfe, the managing director of De Beers, to discuss De Beers' concerns about Diamond Valuations International, the government diamond valuator.

The task team is headed by Sandile Nogxina, Maduna's director-general. It is expected to report back to the minister next week.

The ministry statement said Ralfe had assured Maduna that De Beers did not wish to raise concerns about the "validity or legitimacy" of the appointment of Diamond Valuations International as the government's diamond valuator.

"Their concerns revolve around the implementation of the government diamond valuator's contract and, more particularly, the current impasse in the export of diamonds that has arisen as a result of the manner in which the valuator interprets its functions in terms of the contract," the statement said.

'The main problem is De Beers' concerns that the valuator was appointed irregularly'

"Ralfe had also raised some concerns regarding co-operative governance in the Diamond Board."

Victor Sibiya, the chief executive of the Diamond Board, welcomed the fact that a full investigation would be conducted.

The main problem has been concerns that Diamond Valuations International's appointment was irregular.

Disputes have also arisen over the pricing of several De Beers diamond parcels, while there has been speculation that diamonds produced by Alexkor, the state-owned diamond mining company, have also been undervalued.

Millennium puts a sparkle on De Beers

BD 20/4/99 (216)

Ilja Graulich

DE BEERS, the world's biggest diamond company, says it is looking forward to the next century, as the new millennium will not only present further problems but also greater opportunities

Chairman Nicky Oppenheimer looked back at a tough year in the company's 1998 annual report

However, he said the restrictive sales policies initiated in late 1997 and the core producers who are contracted to the Central Selling Organisation (CSO), which controls 70% of sales on the world diamond market, ensured that there was some sort of stability in the diamond market

That is despite the continued recession in Japan and southeast Asia, among the biggest buyers of diamonds Turmoil on global stock markets also played havoc with liquidity problems at cutting centres

Oppenheimer said the first two sights of the year were already showing some signs of recovery, as sales had been higher than during the same period last year

On the operational front, the expansion project designed to double the capacity of De Beers Orapa operation in Botswana should be completed by the end of this year

The construction at Jwaneng of the most modern, automated and secure recovery and sorting facility in the world, would also be completed next year

Analysts had speculated at one stage that De Beers was willing to sell some of its less successful operations

However, this idea has been dismissed by the company

The big draw card for De Beers could be the millennium The group has embarked on a massive advertising and marketing campaign, using the millennium as a stepping stone to advertise De Beers diamonds

Slogans such as "The millennium may come and go but a diamond lasts forever" and "The world's computers haven't figured out what the millennium means but you have" are just some of the ways in which De Beers hopes to attract new buyers

The company also has developed proprietary technology to "invisibly" inscribe polished diamonds with the De Beers marque and the 2000 symbol

It hopes that diamond buyers will in future look at quality rather than quantity when investing their dollars

MD Gary Ralfe said yesterday at the release of the annual report it would be interesting to see whether millennium hype had had any effect on demand or whether sales of De Beers diamonds would have increased in spite of the new millennium

De Beers said initial results of the millennium branding exercise under way were encouraging and reflected the value that the De Beers' name and reputation added to diamond jewellery

Oppenheimer also highlighted some other aspects of the year, led by the group's willingness not only to invest in big projects but also to invest in small mines and joint ventures

A joint venture initiative was led by the transferral of De Beers' rights in the high yielding Marsfontein mine to a new company, a substantial portion of which was then sold to black empowerment consortiums

Last year also saw another fatality-free year on SA mines, which Oppenheimer said was testimony to the company's determination to reduce risk

Report probes diamond dispute

BD 23/4/99 (216)

Reneé Grawitzky

MINERAL and Energy Affairs Minister Penuell Maduna today receives a task team report on measures to resolve the dispute over the valuation of SA's diamonds and whether their valuation should be linked to De Beers' price book

At the same time, divisions over the appointment of government's diamond valuator continue to fester in the SA Diamond Board

Last week Maduna appointed a task team to investigate De Beers' concerns relating to the responsibilities of government's diamond valuator after a dispute erupted over the manner in which diamonds should be valued

The dispute has led to a freeze on the export of SA's diamonds for nearly two months On average, SA exports about R500m worth of diamonds a month

An industry source says government could consider the approach taken in Russia, or being considered in Namibia, to try to resolve the current dispute

Producers could be requested to sell a small percentage of diamonds on the open market so that government's diamond valuator could gauge whether or not the prices in the De Beers price book are fair

Industry sources say government's diamond valuator is questioning the use of De Beers' price book to value SA diamond exports The sources say the valuator is in effect challenging the whole system of valuing diamonds

The valuator is responsible for auditing the quality of diamonds being exported and also has to ensure that the values attached to the grades are realistic

To date, the De Beers price book has been used to assign value in assessing grades of diamonds The price book is used in all the countries where De Beers buys diamonds contractually The key question is whether the price book is the same in all countries

There is a perception in the market that De Beers is undervaluing its diamonds and hence this could ultimately affect the payment of tax

This perception arises from the fact that the De Beers price book could be lower than the market price

Analysts say it is very difficult to assess the price of diamonds as they are determined differently than other commodities There is no free market price for diamonds

De Beers creates the price of diamonds through the Central Selling Organisation, advertising, open market buying and stockpiling If an increased number of diamonds were to be sold in the market, the price would drop

Analysts question whether the dispute over the appointment of government's diamond valuator is a "red herring"

Industry sources, however, maintain, that irregularities exist in the appointment They say that not all members of the board approved the signing of the valuator's contract, nor the contract price, which is said to be about R8,5m

De Beers surprised by 44% share price surge

BD 26/4/99 (216)

Increase, due mainly to stake in Anglo, could be reversed by Wall Street downturn

Neil Behrmann

LONDON — De Beers is benefiting from the rise in Anglo American's share price

De Beers directors confess to being surprised by the unexpected 44% De Beers price surge to $23 after the results were published early last month, dollar prices are being used to iron out rand fluctuation, and the international market follows De Beers in dollars

The diamond market is beginning to recover, and prices of gems in Antwerp are trading at small premiums over De Beers quotes, compared with discounts six months ago, but the market certainly has not taken off, they say

The main reason for the share price jump — it closed at R140 on the Johannesburg Stock Exchange on Friday, a 17% gain for the month, after a correction towards the week end — appears to be De Beers' 40% stake in Anglo The price of Anglo has soared since the beginning of the year, and De Beers is benefiting Indeed, during the past few weeks, De Beers shares have tended to move in tandem with Anglo

Roger Chaplin, the head of research at resource specialist stockbrokers T Hoare & Co, puts De Beers' net asset value as high as $43,60 a share and the investment holdings, which are mainly Anglo-American Corporation, at as much as $19,50 a share

Chaplin values De Beers diamond mines at $8,29 a share, the Central Selling Organisation (which markets, sells and distributes the gems) at $3,89, and the diamond stockpile at $11,92 So the market is now valuing all the group's diamond assets at only $3 a share, he contends

Most London analysts have become optimistic about De Beers, after their gloom in March when De Beers results were published Earnings plunged 40% to $1,66 a share and the dividend was cut 22% to 80c a share

The slump in Japan, the second largest market for diamond jewellery, and the Asian crisis, caused De Beers diamond sales to tumble 28% to $3,345bn last year To support diamond prices, De Beers stockpiled gems so that its inventories jumped $377m to a record $4,816bn, the company says

Charles Kernot, London-based mining analyst at Paribas, a unit of French bank Banque Paribas, cautions that the shares have gone up far too quickly

Following a 9% jump in US diamond jewellery sales last year, the US accounts for as much as 46% of global gem jewellery sales, he says Any downturn in Wall Street would knock both De Beers and the diamond market This is precisely what happened to De Beers shares when Wall Street plunged in September and October At the time, the shares slid to $11,50

Also, De Beers tends to trade at a discount to net worth because it is an unusual company, contends Kernot The interlocking share holdings between Anglo and De Beers discourage investors from raising the rating of both companies, analysts and UK fund managers warn

Diamond Board may sue over valuator contract

(216)

BD 28.4.99

Reneé Grawitzky

DIAMOND Board members are considering court action to have government's diamond valuator contract annulled

The valuator values diamonds before they are exported

The move coincides with the establishment of a task team by Minerals and Energy Minister Penuell Maduna to investigate the dispute between De Beers and the government diamond valuator over the valuation of diamonds.

The manner in which the contract was awarded and issues of corporate governance within the board will be investigated by a separate task team

Aggrieved board members said they were not opposed in principle to the award of the contract to Diamond Valuations International Company, headed by Claude Nobels, but to its provisions

Sources say there have been differences between board members and officials Said one "It is clear that the tension exists because of a lack of consensus between officials and board members, on their responsibility and accountability to the board as opposed to the state"

The board, as a statutory body, is accountable to the state One source said there was a perception that the diamond industry could do as it pleased

Individual interests in the industry in relation to the broader political agenda of transformation of the industry remain a matter of controversy Board members have alleged that they did not have an opportunity to ratify the contract prior to it being signed and that terms specified in a board decision were ignored Because of this organisations represented on the board wanted the contract declared null and void

Diamond Board CEO Victor Sibiya and board chairman Gibson Thula yesterday welcomed the investigation of governance issues by the minister

DIAMOND EXPORTS

THAT GLEAMING WILL-O'-THE-WISP, IS IT TRULY FOREVER?

The answer to the issue could have far-reaching implications

The bust-up between De Beers and the government diamond valuator involves diamond sales worth R5,8bn/year and threatens De Beers' relationship with government

De Beers has stopped exporting diamonds while it tries to resolve the dispute with the valuator A task team set up by Mineral & Energy Affairs Minister Penuell Maduna to investigate the issue reported back to him last Friday Copies of the report are being circulated to Cabinet Ministers and Maduna may make the outcome public on May 6

The freeze on De Beers exports has lasted four weeks — a potential loss of about R480m (US$80m) in foreign exchange earnings The hiatus also has implications for De Beers' partners in mines, such as Canadian junior mining company Southern Era, Anglovaal Mining and Industrial & Commercial Holdings (ICH)

Southern Era is De Beers' partner in the small Marsfontein mine De Beers is lending the company money to help it through the disruption in sales

Anglovaal and ICH receive 50% of the profits from SA's largest diamond mine, Venetia, which last year accounted for 4,5m of the 9,7m carats produced by De Beers in SA Their share of the profits is paid over half-yearly by De Beers

Anglovaal MD Rick Menell says "so far there has been no effect on us and I believe this dispute will be settled quickly because it's far too important for the country and the industry to be allowed to continue"

The core of the dispute with government centres on what the price of a rough diamond should be The short answer is it's what De Beers wants it to be

De Beers controls about 75% of the world diamond trade It sets prices by controlling the amounts of diamonds it sells at the 10 "sights" held annually in London through the Central Selling Organisation (CSO) The long-term policy is to maintain stability and steadily raise prices in the diamond market

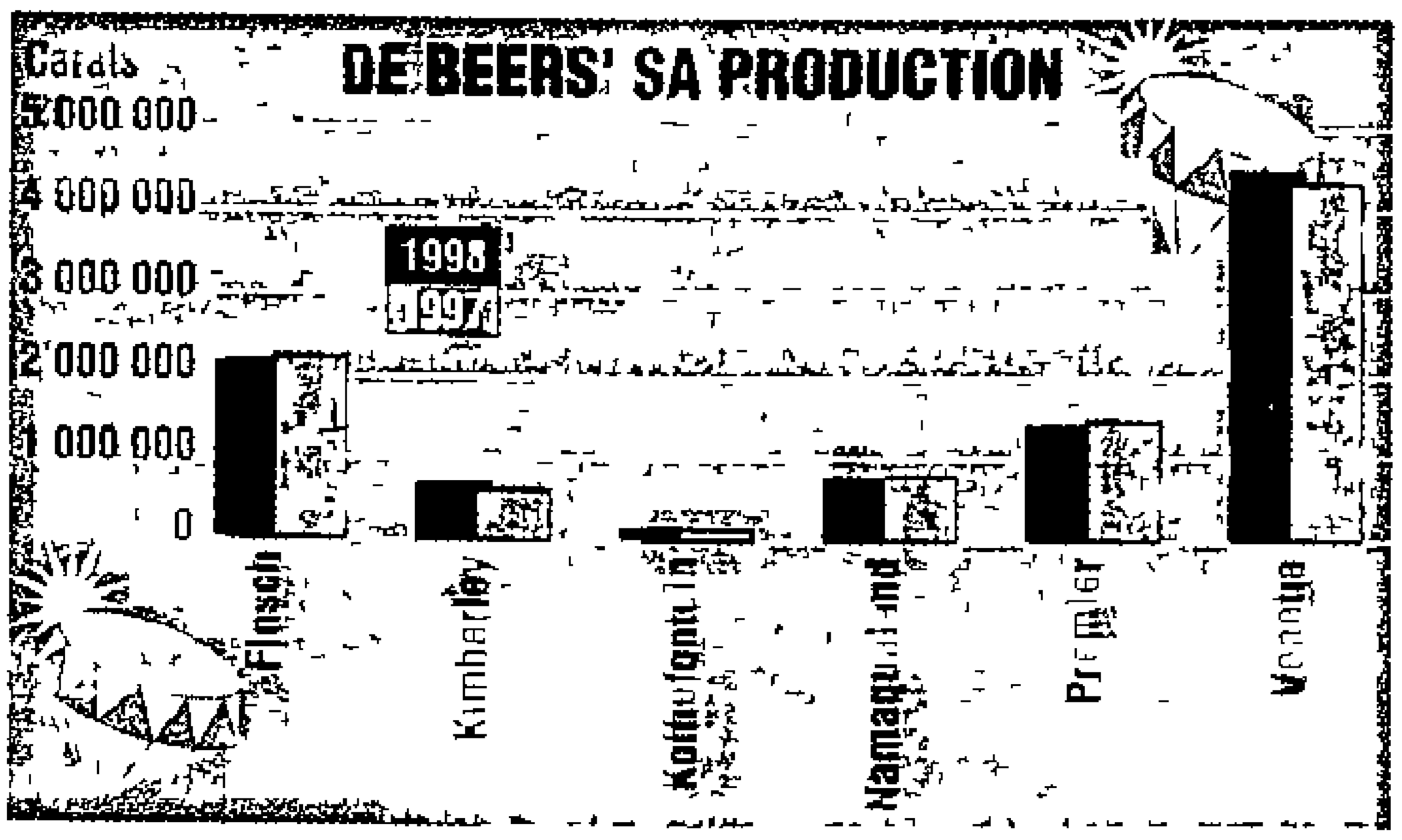
To do this, the CSO buys and stockpiles diamonds from its contracted producers when times are bad

It will sell these surplus diamonds into the market at a later stage during boom conditions so as to prevent the price of diamonds rising too rapidly

De Beers spokesman Tom Tweedy says the CSO's pricing structure is set "to ensure its clients will make money" and it charges a 10% fee for its services to the diamond producers

The volume of diamonds sold by De Beers ultimately determines the price on the "open" diamond market in Antwerp, Belgium, where the new government diamond valuator, Claude Nobels, is headquartered The previous valuator was SA firm Proval

Tweedy says the job of the valuator is to agree on the sorting and grading of the diamonds, which then translates into standard CSO selling prices



But SA Diamond Board CEO Victor Sibiya says the government valuator's role involves more than mere grading, and brings in the concept of fair-market value

The new valuator challenged the valuation of a parcel of Marsfontein diamonds, apparently because it was below the going Antwerp prices

Barnard Jacobs Mellet diamond analyst James Allen says "the price in Antwerp at the moment is probably higher than the CSO list prices, but that's because the CSO is holding back diamonds from the market to support prices

"Last year Antwerp prices were generally below the CSO list prices because there was a surplus of diamonds on the market At the end of the day the price of a diamond is determined by the policy of the CSO, which is sitting on stocks worth $4,8bn (R30bn) at present," he says

Implicit in the valuator's challenge is the allegation that De Beers could be indulging in transfer pricing by understating the value of diamonds exported from SA

The allegation is not new It has been made before in SA and Namibia and has consistently been rebuffed by De Beers

De Beers does lay itself open to this kind of accusation because it is a cartel and the diamond industry, by its nature, is not transparent You cannot open your daily paper and check the price of rough diamonds as you can with gold or platinum

If transfer pricing has been taking place, it will have reduced the revenues reported and taxes paid by De Beers mines in SA, and allowed De Beers to take extra profits offshore through higher diamond prices set by the CSO

Tweedy says this does not happen, because the revenues earned accrue to the SA mines only when the diamonds are sold by the CSO and the proceeds are then repatriated to SA, minus the 10% fee

Other SA diamond producers like Trans Hex, Benguela Concessions and Ocean Diamond Mining (ODM) are not affected by the dispute because they do not sell through the CSO

Their production is either sold on tender in SA, or through Antwerp, and the foreign revenues are repatriated Trans Hex operations director Peter Danchin says "we offer all our goods initially in SA on a tender system with a reserve price which is the going rate in Antwerp"

The dispute is embarrassing for De Beers and carries political overtones Last year Maduna criticised the prices being received by State diamond company Alexkor, which sells through the CSO In February the management contract for Alexkor was awarded not to De Beers but to the Nabera consortium

De Beers had made a strong pitch for that contract and many analysts say it was by far the best-qualified bidder Now the government valuator is challenging its pricing policy You have to wonder is this mere coincidence or is De Beers being punished?

Brendan Ryan

Maduna to plug diamond export gap

(216) CT(BR) 6/5/99

JONATHAN ROSENTHAL

Pretoria – Penuell Maduna, the mineral and energy affairs minister, said yesterday he would review diamond export agreements to ensure they were not being used for widescale evasion of a 15 percent export duty

Under South African law, diamond exporters are obliged to pay a 15 percent export duty on rough diamond exports unless they can prove they first offered the diamonds at a fair price to the local cutting and toolmaking industry and failed to find buyers.

The exemption is intended to stimulate the domestic cutting industry

But sources in the ministry said in practice exporters were largely ignorant of how the exemption law worked and assumed it allowed them to simply export tax-free, without first offering the diamonds to the domestic industry

As a result, most of the country's exports of diamonds, worth an estimated $900 million to $1 billion a year, go untaxed This costs the government up to $150 million in lost revenue.

"A healthy and prospering diamond industry should be as important to our country as it is to the shareholders of the companies directly involved in the industry

"This, however, means that we, as government, must ensure the taxes, dues and fees are being paid by the industry," Maduna said.

He said if exporters were found to have misused the duty-free export provisions in the law, they could be faced with liabilities for unpaid tax

"If indeed there is tax payable to the government they (the South African Revenue Service) will have to go into it," he said

De Beers, the country's leading diamond producer, said it welcomed the review as it felt confident De Beers complied with the law

Tracey Peterson, a De Beers spokesman, said the group facilitated the import of the high-grade diamonds that could be most profitably cut by the domestic industry.

Maduna also released the findings of an investigation into a dispute between the Government Diamond Valuator and De Beers over the alleged undervaluation of export diamonds. The dispute has halted diamond exports since mid April.

EAGLE EYE *Penuell Maduna, the mineral and energy affairs minister, is determined to stop evasion of export duty by the diamond industry and to see that taxes, dues and fees are paid*

De Beers awaits Maduna's word

CT(BR) 5/5/99 (216)

JONATHAN ROSENTHAL

Johannesburg – De Beers, the world's leading diamond company, sold more diamonds than expected at its fourth sale this year in London yesterday, but it postponed its sale to the South African industry because of its dispute with the government diamond valuator

Penuell Maduna, the minister of minerals and energy affairs, is expected to make an announcement today on the results of an investigation into the dispute

The De Beers Central Selling Organisation (CSO) sells rough diamonds at several sights, or sales, a year Approved diamond buyers, or sightholders, are offered pre-packed boxes of assorted diamonds.

The CSO is believed to control more than 70 percent of the world's rough diamond trade

Tom Tweedy, a De Beers spokesman, said yesterday that since the dispute concerned "specials" (diamonds of 10,8 carats and higher), De Beers had been obliged to withdraw these diamonds from the boxes offered to the 12 local sightholders

INSCRUTABLE *Penuell Maduna, mining and energy minister*

"Sightholders asked us to postpone it till Friday and we agreed," Tweedy said

He said it was hoped that the dispute would be resolved by Friday, but warned it could have implications for the local cutting industry The sector employs about 1500 people

Hennie Vermeulen, an analyst at Investec Securities, said the price applied to specials had to be approved by the government diamond valuator

"(The valuator) reportedly insists on adding 30 percent to the price of the specials, which would create serious losses to the cutters," he said "The CSO of course knows that such prices are unrealistic and has offered sightholders to take the regular boxes without the specials

"The sightholders in turn say they are not willing to take a partial and incomplete sight"

Maduna said yesterday he would announce a decision on the matter today But industry sources are mixed on the likely outcome of the report as to whether or not the outcome would favour of the valuator

Vermeulen said the four experts appointed by Maduna to the investigative committee were equally divided in their recommendations

Row puts local diamond sight on hold

BD 5/5/99 (216)

Reneé Grawitzky

LOCAL diamond sight holders have been caught in the middle of the protracted dispute between De Beers and the government diamond valuator

The dispute — which centres on valuation of diamonds — could mean that diamond processors will have to put workers on short time They warned last night that the industry's future was at stake if the row remained unresolved

The allocation of gem consignments to sight holders was yesterday postponed to Friday because of differences over how diamonds should be valued

This comes ahead of today's release by Minerals and Energy Minister Penuell Maduna of a task team report on the row

The government diamond valuator has questioned the traditional use of De Beers' price book to value diamonds prior to export The valuator would like to value diamonds at a higher market-related price or spot price

Analysts said the inherent problem in this approach was mandating a sale price "which is not sustainable" Ultimately diamond prices were determined by De Beers through the activities of the Central Selling Organisation

Mining analysts said that if De Beers could not export diamonds at its book value there was no incentive to import "specials" — gems bigger than 10,8 carats — for the local market at that price

Despite this the company was obliged, in terms of an agreement with government, to provide the local market with these bigger stones

The analysts said De Beers could not afford to back down The dispute was ultimately a question of trust and, if De Beers backed down, it would mean it had been exporting under a flawed system

Diamond manufacturers last night accused government of abandoning the local diamond industry in the hope that it would get more tax out of De Beers

An industry source said "government and local processors together fought De Beers for 20 years to get a better price for rough diamonds to ensure the industry's profitability" The tables had now turned as government was insisting that De Beers sold diamonds to the industry at a higher price, the source said

Local processors could import if not supplied by De Beers, but this would be at a higher price

De Beers had been scheduled to supply its 18 sight holders with a regular consignment of rough diamonds yesterday, but local diamond processors asked De Beers to cancel the sight as the consignments, without stones larger than 10,8 carats, were incomplete

Processors said De Beers was unable to provide complete consignments because of the dispute De Beers confirmed that the sight was postponed to Friday because of problems valuing "specials"

Diamond Act under scrutiny

BD 6/5/99

(216)

Reneé Grawitzky

ANNOUNCING a sweeping review of legislation governing the diamond industry, Minerals and Energy Minister Penuell Maduna rapped De Beers and the government diamond valuator over the knuckles yesterday.

Steering a cautious middle course in the dispute between the two, Maduna censured the company — which faces a government probe of an agreement exempting it from paying a 15% export duty — for insisting that the valuator should merely verify its mechanism for determining the value of diamonds

Analysts said the previous government diamond valuator never questioned the use of De Beers' price book as a benchmark for the value of export diamonds Government, they said, was not challenging De Beer's price book, but rather arguing that it should be used only as a "barometer" to value diamonds

The newly appointed government diamond valuator, meanwhile, was criticised by Maduna for failing to comply with the provisions of the Diamond Act by delaying the export of diamonds for longer than 10 days SA has been unable to export diamonds since February

Analysts said the last thing government wanted was to be seen to be siding with De Beers as the dispute had taken on political overtones

It appeared the government diamond valuator might have gone beyond his responsibilities as defined in the act and in terms of his contract

Industry sources said De Beers was not out of the water as government was committed to reviewing the entire system of diamond exporting and to drafting new regulations to clarify the uncertainty surrounding the assessment of diamonds

Maduna said diamond legislation had to be aligned "with the constitution and government policy"

Analysts warned that any major changes to the regulations might reduce De Beers' flexibility to use diamond prices to stabilise the rough diamond market

Government, analysts said, had to ensure diamonds were priced correctly so that foreign exchange earnings were not minimised and corporate and other taxes were maximised As Maduna said, he had to ensure that exemptions were not "being used as a vehicle to avoid payment of export duty", but to benefit the local diamond industry

De Beers welcomed Maduna's efforts to resolve the impasse and said it was encouraged by the indications that its sorting and valuation system played a relevant role in determining the proper valuation of diamonds The company said the single channel marketing system benefited all stakeholders

The measures announced by Maduna yesterday were based on the recommendations of a task team set up last month to break the impasse between the parties so that diamond exporting could resume

In the event of any future dispute over fair market value, parties should refer to the act, which outlined a dispute resolution process, Maduna said

In terms of the act, if the government valuator was not "reasonably satisfied" with the value declared by exporters, he would have to bring in independent assessors If the dispute could not be resolved the diamonds could be put out to tender to at least five people If no written tenders were received within a week the valuator would be forced to accept the value indicated by the exporter

If the highest tender failed to exceed De Beers' price by 15%, the valuator would be obliged to accept the company's valuation

De Beers' valuation would be rejected if the tender price was 15% above its valuation The company would be required, in terms of the law, to pay a fine if the tender price was 20% above its valuation

Comment: Page 19

Sanctions inspector to meet De Beers

(216) CT (ANR) 12/5/99

From Reuters

Luanda – The chairman of the United Nations' sanctions committee on Angola would meet De Beers, the diamond miner, in Angola's capital Luanda today as part of a sanctions inspection tour, De Beers said yesterday

"In terms of this working visit, (Robert Fowler) will have a meeting with Nicky Oppenheimer, the chairman of De Beers, and tomorrow morning with De Beers Angola," said Ollie Oliveiro, the director of De Beers Angola

The UN Security Council last week endorsed a resolution to send Fowler, Canada's UN ambassador, to several countries in southern Africa to investigate why sanctions against Angola's rebel Unita movement were not working

De Beers' head office in South Africa said Fowler would meet Oppenheimer in Johannesburg next week as part of the Canadian's three-week trip, which would also take in Namibia, Zimbabwe, Zambia, Botswana and the Democratic Republic of Congo

When Fowler returned from his fact-finding mission, he would set up two panels of experts for six months, one to investigate Unita's illegal trade in diamonds and fuel and how it managed its finances, the other to investigate how the rebels were getting weapons

Unita has been battling the Angolan government for more than 25 years Military analysts have said one reason the rebels were able to wage war with such persistence was because of the money earned from selling illegally mined and exported diamonds

Global Witness, a UK-based human rights group, published a report last year alleging De Beers bought diamonds from Unita, violating existing UN sanctions.

De Beers denied this

Fowler told reporters in Luanda yesterday that he was looking for ways sanctions "might usefully be changed, adapted or increased" and said he would meet De Beers as part of his effort "to limit the ability of Unita to make war"

Oliveiro said the meeting was not out of the ordinary, and just one of several that Fowler's team would have in Angola

"He needs to gather information and speak to the relevant parties. We maintain regular contact with the government bodies involved in implementing the sanctions, and have been in regular contact with the UN," he said

De Beers row deals cutting blow

CT (BR) 18/5/99 (216)

Jonathan Rosenthal

Johannesburg – South Africa's diamond cutting industry faces a supply crisis as the result of a seven-week delay in the supply of high-quality rough diamonds, following a halt to both imports and exports of De Beers diamonds

The local cutting industry, which employs about 1 500 people, is regarded as a high-cost cutting centre and thus concentrates on cutting stones larger than 10,8 carats, which have a higher profit margin Most of these stones, which are called specials, are imported by De Beers from its London stockpile.

But a seven-week halt in diamond exports by De Beers, because of a dispute with the government diamond valuator, has also included a halt on imports

De Beers halted exports in mid-April after the government diamond valuator seized a package of export diamonds, saying De Beers had undervalued it

The issue was investigated by a task team appointed by Penuell Maduna, the minerals and energy minister, who said both De Beers and the valuator had failed to apply the law as stipulated in the Diamond Act He failed, however, to rule directly on the dispute and urged both parties to simply apply the law while promising a comprehensive review of the Diamond Act.

Earlier this month De Beers agreed to delay one of its diamond sales at the request of diamond buyers when they were informed that the parcels of diamonds on sale would not include specials The sale subsequently went ahead on May 7, but without any specials in the parcels "I'd say they (De Beers) are using this as a stick, saying to government if we can't export we won't import," said one Johannesburg analyst

But Allan Cooke, an analyst at Rice Rinaldi Securities, said De Beers was unlikely to be holding the cutting industry hostage to its dispute with the government

A De Beers spokesman said yesterday the group was "optimistic we will be in a position to provide them (specials) to our customers by the next sight (sale)"

The effects of the halt on diamond exports are seen as less damaging to the domestic diamond industry

"So far the South African mines haven't been able to put in rough diamonds and get dollars, which is all right, I suppose, because the rand has fallen in a heap," said Cooke

De Beers seeks legal counsel

CT (BR) 26/5/99 (2.16)

Jonathan Rosenthal
Commodities Editor

Johannesburg – A self-imposed De Beers moratorium on diamond exports continued this week while the world's leading diamond company sought legal opinion on its compliance with the Diamond Act, De Beers said yesterday

The move comes as the minerals and energy department investigates possible tax evasion by diamond exporters

De Beers halted diamond exports in mid-April after it became embroiled in a dispute with the government-appointed diamond valuator, which alleged that De Beers had undervalued a parcel of export diamonds

That led to an investigation by Penuell Maduna, the minerals and energy minister When Maduna released the findings early this month, he said both De Beers and the government diamond valuator had failed to comply with dispute resolution mechanisms in the Diamond Act and called on both parties to simply apply the law But he also said he was launching a comprehensive review of all duty-free diamond export agreements

Unless exporters are party to a section 59 export agreement they are liable for a 15 percent tax on diamond exports

Tracey Peterson, a De Beers representative, said yesterday the group had not resumed exports as it was getting a legal opinion on the Diamond Act and ensuring that it was complying with the act

"It's not specifically section 59 but also all the related sections We are just ensuring that we understand it (the act) correctly," she said

But the dispute with the government diamond valuator was still not resolved "We are consulting legal counsel and then we will go back to the table (to resolve the dispute)"

Sandile Nogxina, the director-general of the department of minerals and energy, said he was concerned by the delay in diamond exports but was unable to intervene "As far as I am concerned the issue was resolved If they encounter any other problems I expect them to come back to us"

He said the investigation into export agreements was ongoing and he had asked the diamond board to send him copies of all such agreements

Tussle over diamonds continues

BD 27/5/99 (216)

Cutters, dealers are losing out on the selection of gems from which they would normally choose

Ilja Graulich

DE BEERS, the world's biggest diamond producer, has not exported diamonds for more than seven weeks following a dispute over the valuation put on a consignment of rough diamonds

The valuation by De Beers differed from the valuation of the same parcel made by the newly appointed government diamond valuator

Three weeks ago Minerals and Energy Minister Penuell Maduna rapped De Beers and the diamond valuator over the knuckles and suggested the dispute should be resolved by talking to each other

At that stage he also said that he would look at undertaking a full review of the diamond act.

However, there is another more pressing problem Local diamond dealers have started to raise their voices, saying that they are losing out on a spread of world diamonds Before the dispute, whenever a parcel was exported from SA, diamonds from other mining areas would be sent to SA shores, giving dealers and cutters a variety of quality This is no longer the case now that De Beers exports from SA have ceased

Although a sight was held two weeks ago, one of the dealers said he was not able to get the quality he wanted The next sight is due in three weeks

One analyst said that if De Beers could not export diamonds at its book value there was no incentive to import "specials" — gems bigger than 10,8 carats — for the SA market at that price

Despite the impasse, analysts still hope that this year will be better for the diamond market The Asian financial crisis resulted in a 28% cut in diamond sales through the De Beers-controlled Central Selling Organisation last year

The market will get an indication of how well sales are doing when De Beers releases sales figures for the first six months of this year at the end of June.

One Johannesburg analyst also pointed out that the millennium is starting to play a much bigger role than initially anticipated

He said forecasts for America are that all jewellery sales will increase and this would continue throughout next year and would not be a once-off, phenomenon towards the end of this year

Can the diamond cartel survive?

MtG 30/4-6/5/99 (216)

Chris Gordon

This decade has seen a major drop in De Beers's Central Selling Organisation (CSO) share of the diamond market, and there are questions as to whether the cartel can survive in its current form The diamond giant now controls an ever-decreasing share of the world's diamond output

The Southern African diamond industry, traditionally controlled by De Beers, has always been intensely regulated, in partnership with governments in the region But changes in economic policy are leading governments to look at measures to increase competition

The newest country to look at deregulation of the diamond trade is Namibia, producer of the world's best gem diamonds, and a joint venture partner with De Beers in the NamDeb mines, producing around 10% of the CSO's total yearly sales, it is said

Now, the Namibian standing parliamentary committee on natural resources has recommended that the diamond trade be deregulated and decriminalised under the new Diamond Act. For the first time it is proposed that dealers be licensed to trade in rough diamonds and that a cutting and polishing industry be set up in Namibia

More worryingly for De Beers, the committee has recommended that the new law should apply to Namibia's 200km exclusive economic zone, bringing the offshore diamond deposits under direct state control.

The new system in Namibia, if passed into law, is likely to benefit Namibia's new partnership with Almazy Rossii-Sakha (Alrosa), the Russian diamond company

The Russians currently sell most of their diamond output to the CSO, and have stopped selling diamonds outside the terms of this contract, but the country had shaken De Beers's tree badly in the early 1990s Russia also has a long-term ambition to become a major presence in Africa, De Beers's home territory

The diamond cartel smooths out the peaks and troughs in trading The question may not be "Should a cartel exist?' but "How is it regulated and monitored and who has a say in it?" These issues are implicit in the recent government moves in South Africa and Namibia, and a reluctance in Angola to join the cartel Only Botswana, of all diamond producers, has a seat on De Beers's board and a direct voice in policy

The wars in Angola and the Democratic Republic of Congo are keeping diamond production there much lower But Angola is still something of a problem for De Beers, which has yet to gain the degree of control that it needs there

De Beers's policy since the Australian Argyle mine — the world's single biggest producer of diamonds — pulled out of the CSO, has been quality, not quantity The cartel now controls a much lower percentage of diamonds but at high value

More regulation by governments and more competition in the diamond world may mean that De Beers's role changes dramatically. It is a prospect for which the company clearly has a contingency plan They will then be looking to a future in which, at worst, the CSO's supplies come entirely from De Beers's own mines and joint ventures But it will not be easy for the giant to cease being the "Last Empire" and become just the world's biggest diamond mining company

De Beers seeks renaissance for Premier

(21b) CT(O/R) 1/6/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – De Beers, the world's leading diamond company, was considering expanding its Premier mine to extend its life well into the next century and make it the world's deepest diamond mine, De Beers said last week

The mine, which turns 100 years old in four years, employs about 1 500 people and can mine 2,4 million tons of ore a year

Without the expansion, which analysts say could cost at least R1 billion, the mine only has another 10 years of life left

The mine has produced a quarter of the world's biggest gems (400 carats and larger), including the Cullinan diamond

The project team is preparing a feasibility study to present to the De Beers board in November next year on an expansion that could extend its life by another 20 years

James Oosthuizen, a project engineer on the mine, said the proposed C Cut expansion was in effect a new mine, with two new shafts and a new processing plant

The new project was expected to mine between 8 million and 10 million tons of ore a year at roughly half the cost of the current mine It would take the mine down to a depth of about 1 000m, making it the deepest diamond mine in the world

"If we can prove that we can mine diamonds at 1 000m, that will have a major spinoff for the other De Beers operations," Oosthuizen said At present the world's deepest diamond mine, a De Beers mine in Kimberley, goes to about 900m

The project team is considering several technical innovations to improve safety and reduce costs, including remotely controlled or autonomous load haul dumpers, bulldozer-type machines that load ore underground

Oosthuizen said the results of a pre-feasibility study were encouraging It seemed as if there were no significant technical or ore-body impediments to the expansion

The project, if approved, would start with shaft sinking in mid-2001, producing diamonds towards the end of 2007 It would enter full production in the first quarter of 2011

De Beers lost 40c to R133,40 on the JSE yesterday

DE BEERS

TIME TO REFORM THE CARTEL?

FM 11/6/99 (216)

Pressures of controlling the world's diamond trade start to tell

Amid the carnage in the resource sectors over the past 24 months, diamonds have survived relatively unscathed, thanks to the actions of De Beers' Central Selling Organisation (CSO)

Trouble is, the CSO has done such a good job of stabilising diamond prices that more and more mining companies are being attracted to the business and are riding on De Beers' back without sharing the burden of market control

Diamond analyst James Picton *"It will take a modern-day Rhodes to draw producers together"*

That's why there's bitter irony in Anglo American Plc chairman Julian Ogilvie Thompson's standard riposte to the standard query over why Anglo intends keeping its 33,5% stake in De Beers "We think the diamond business is a good one to be in and note that other mining groups think so as well, judging by their new diamond ventures "

Independent diamond analyst James Picton calculates that world rough diamond production was 109,9m carats in 1997 and forecasts this will rise to 119m carats in 2005 The main winners over this period will be Canada, rising from nil in 1997 to 9m carats in 2005, Botswana (20,1m carats to 26m carats), Russia (13,4m carats to 16m carats, and SA (10m carats to 14m carats)

These gains will be partly offset by a drop in Australian production from 40,2m carats to 25m carats as the huge Argyle mine winds down

But outside De Beers, the question being asked is how long this can continue before some final straw breaks the CSO's back, with disastrous consequences for all concerned

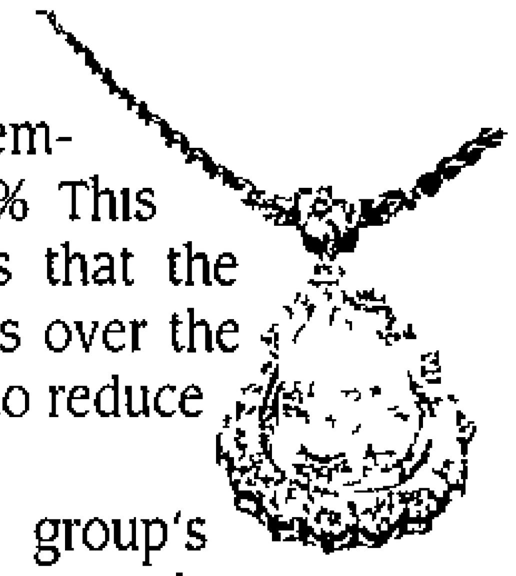
The point is probably being debated inside De Beers, too, where a "strategic review" of all aspects of the group's business is under way It is hard to know how this debate is progressing, though, as De Beers executives won't publicly discuss the CSO's future during the review

(De Beers' corporate sensitivity is heightened by its dispute with Pretoria over the performance of the new government diamond valuator As a result of the dispute, now two months old, De Beers has ceased all diamond exports from SA, denying the fiscus revenue on exports worth R500m/month)

Anyone advocating a complete end to the CSO system must bear in mind that diamonds are a luxury item sold in an artificially controlled market based largely on what former De Beers chairman Harry Oppenheimer once termed "the vanity of women"

De Beers controls the diamond market through the CSO, which accounts for about 75% of the world's trade in rough diamonds The CSO buys diamonds from contracted producers and also "mops up" diamonds in the open market from non-contracted producers

The costs to De Beers of controlling the diamond trade have mounted over the past 10 years to the point where the diamond stockpile at the end of December had reached a value of US$4,7bn That's 48% of the group's capital employed In 1990 it was just 29% This is despite production quotas that the CSO has applied to producers over the past few years to force them to reduce output



"To have almost half the group's capital tied up largely in inert stocks has serious implications for diamond profitability," says Picton

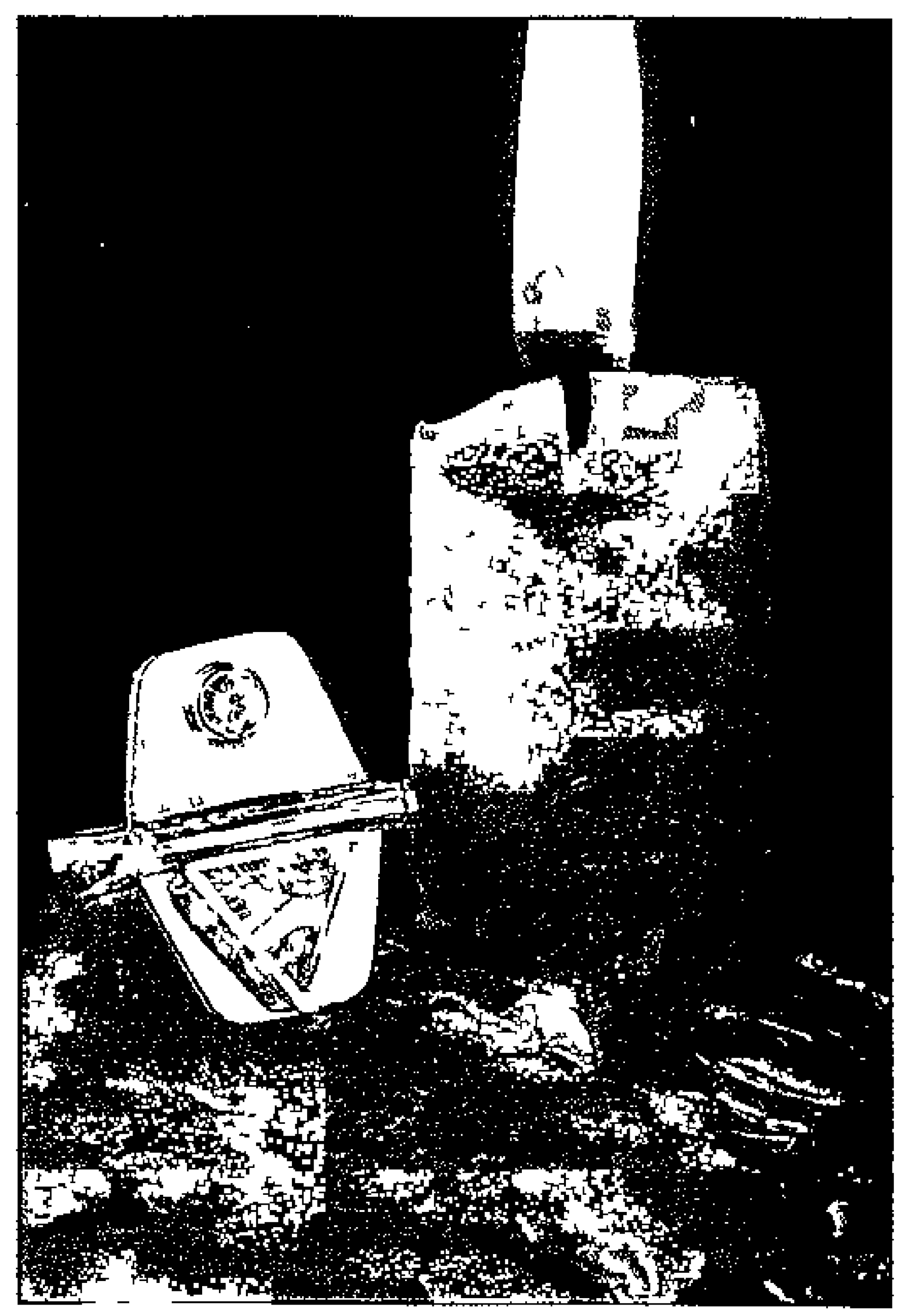
Meanwhile, De Beers is spending about $200m/year on generic advertising to promote diamonds, which benefits the entire diamond industry

"De Beers is supporting itself and harming itself at the same time," says London-based diamond valuer and analyst Martyn Marriott

"In supporting many of the rough diamond price structures, De Beers is creating the perfect environment for new producers who are seldom co-operative or even gracious "

Marriott worked for De Beers for 14 years before leaving in 1970 to establish Diamond Counsellor International, which at present values diamonds for the governments of Namibia and Guinea as well as Angolan State diamond company Endiama DCI has also been the diamond valuer for the Botswana government and Australian producer Argyle

Marriott says the system of central sell-



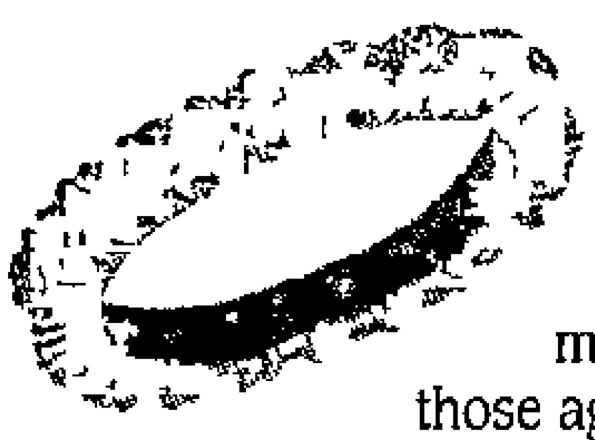
Flash marketing *De Beers spends $200m a year on advertising*

ing is crucial to the continued health of the diamond industry But he wants to see changes made — some of which De Beers wouldn't like

He wants greater transparency and accountability from the CSO, to defuse the mistrust and resentment with which it is viewed by many of its contracted suppliers He also wants to see broader cooperation between the CSO and its producers to share the financial burden of shoring up the diamond market

"At present, the CSO is a concept without a clear corporate structure," he says "Moreover, its present form makes it hard to believe it is not there more for the benefit of De Beers than for the rest of the diamond industry Any restructuring could provide a better focus"

The CSO, Marriott says, has made considerable strides towards greater transparency and accountability, but more could be done Its problems with Argyle, the Angolans and the Russians mainly arise from two things



The first, he says, is that all three of these producers believe the CSO can, and does, make profits on the resale of their diamonds, over and above those agreed contractually

Secondly, they believe it costs more to sell through the CSO than to sell on the open market

Addressing these issues will require far more detailed and open accounting than De Beers has ever been prepared to provide At present, there's no way of calculating the CSO's profit margins because diamond trading profits are lumped in with diamond mining profits

One suggestion is the CSO be restructured to pay profit shares to its rough diamond suppliers after charging them a fixed fee for its marketing services

"The CSO must decide whether it is in business to provide a service or to make money for itself," says Marriott "In future, it may be better for the industry if the CSO provides a service for which it charges a fixed fee"

There's also the problem of the diamond stockpile Marriott suggests the CSO and its producers could work together more closely in financing the stockpile

Marriott also recommends an all-out attempt to settle the antitrust issue hanging over De Beers in the US

"Governments are more likely to be mindful of the longer-term implications of an uncontrolled diamond market than mining companies, which must look to the short-term benefits of their shareholders," he says

The governments of the diamond-producing countries within the Southern African Development Community — Botswana, SA, Namibia and Angola — and Russia might use diplomacy to try to sort out the antitrust issue and persuade other governments to encourage their producers to sell through the CSO, Marriott says They might also achieve a more rational and lasting system by fixing quota arrangements among themselves

"At present, they all try to get as much as possible from De Beers A restructured CSO could act more as an arbiter A more balanced and equitable solution might come from mutual negotiation in the context of regional trade and political strategies and policies"

He says another way of broadening the base of the CSO would be to appoint an advisory committee, or council, from the diamond trade that is well represented by world federations of diamond bourses and manufacturing associations

The most obvious indicator to outsiders that De Beers is acutely aware of its dilemma came last year with the revelation that the group had perfected technology to "brand" its diamonds

De Beers has been playing down the impact of this technology ever since, but the implications are huge

Branding would seek to increase market share through product differentiation, and there would be clear benefits if De Beers managed to distinguish a "genuine" CSO diamond from others

If it works, De Beers and its contracted suppliers will reap more of the benefit of De Beers' advertising and other marketing efforts than the noncontracted producers, who have had a free ride so far

Analysts taking an extreme view see this as De Beers preparing for a collapse of the central selling system Picton says it's designed to encourage more producers to join the CSO Marriott says De Beers is more concerned about protecting the market for natural diamonds against synthetic products

Whatever happens, it's clear the diamond trade is going to remain as riveting a business as when Cecil John Rhodes amalgamated the Kimberley diamond producers last century, and when Sir Ernest Oppenheimer created the CSO in 1934 on the verge of an industry collapse

"It'll take the present-day equivalent of a Rhodes or an Oppenheimer to drive the diplomatic initiative required to persuade the diamond producers that it's in everyone's interest to behave in a logical and reasonable fashion," says Picton

Brendan Ryan

Pocket of gems *a CSO worker prepares a sight box for an approved customer*

Pick of the bunch *De Beers has said little about the technology it says it has perfected to "brand" diamonds*

Trans Hex and ODM merger thwarted

Wiese vetoes diamond mine merger

(216) ARG 12/6/99

MARC HASENFUSS
CAPE EDITOR

Cape Town – Christo Wiese, the retail and banking tycoon, appears to have thwarted the R700 million merger between Trans Hex, Rembrandt's diamond miner, and Ocean Diamond Mining Holdings (ODM)

This emerged after a shareholders' meeting of the companies yesterday, when Wiese and his associates voted against the formation of Trans Ocean Diamond Mining

Speculation was also rife that Wiese had sold on his large holding in ODM to rival Namibian Minerals Corporation (Namco) after the ODM share price saw huge volumes this week, reaching over R6

This suggests Wiese profited handsomely from the failed merger, possibly to the tune of R50 million if his entire stake in ODM was sold off

Wiese purportedly owned more than 20 percent of ODM's shares as well as a minority stake in Trans Hex

Megan Williams, spokesman for Namco in London, would not confirm speculation around the company buying Wiese's ODM shares, but indicated that if any material transaction had taken place shareholders would be officially notified

Neil Hoogenhout, the chief executive of Trans Hex, confirmed that Wiese's vote against the merger made all the difference at yesterday's shareholder meeting

It seems other significant shareholders in ODM such as Sanlam and Old Mutual had backed the merger Only last week, the formation of Trans Ocean Diamond Mining seemed a fait accompli, and Trans Hex's share price surged almost 30 percent in one day

Hoogenhout said it was unclear if Wiese, who is currently overseas, still owned all his shares in ODM or whether he was voting on behalf of the new owner of the shares.

"All we can add is that we don't think the merger was shot down for commercial reasons We thought it was a brilliant deal for ODM and Trans Hex shareholders, but maybe we didn't blow our trumpet loudly enough "

Sources believe Wiese voted against the merger because he felt ODM's potential might be blunted under the Trans Hex/Rembrandt influence

ODM, which listed on the JSE in 1990, has built an impressive marine mining business off the Namibian coast with annual production of over 65 000 carats A second mining vessel, the Ivan Prinsep, has just been launched which should result in annual production figures clearing the 100 000 mark

Hoogenhout scotched the chances of Trans Hex revisiting the deal with ODM

"Our advisers tell us that the way the original deal was structured we cannot technically make a new offer for at least another 12 months."

Trans Hex shares shed 95c to R27 on the JSE yesterday, while ODM lost 20c to R5,80

De Beers to export again after three-month stoppage

16/06/99 (~~260~~) (216) C.T.

STEVEN SWINDELLS

Johannesburg – De Beers, the diamond conglomerate, said yesterday it was preparing to resume exports from its South African mines to its Central Selling Organisation (CSO) marketing arm, as early as the end of this week

De Beers has not exported diamond consignments since March because of a pricing and export levy dispute with the government-appointed valuer

"We are valuing and assembling the diamonds in Kimberley at present," said Tracey Peterson, a De Beers spokesmen "These arrangements should be out of the country by the end of the week or early next week "

The consignment is expected to be included in the London-based CSO's next global sight sale on July 13

The CSO has been meeting its sales obligations from stocks in London and from exports from Botswana and Namibia after it locked horns with the government diamond valuator (GDV) over the "fair market value" of unpolished diamond exports

The GDV insisted that the CSO's list price for diamonds should be used only as a "barometer" and that other valuations, whether from spot markets such as Antwerp or from local traders, should be used

There were no immediate details on how the impasse, which prompted the appointment of a special review body, had been resolved

Signs of a pending deal between the firm and the GDV emerged last week when De Beers sold so-called "specials" – diamonds more than 10,8 carats – to the South African cutting industry during a three-day sight sale

Local cutters had been denied specials, which are exported and then sent back to the South African market, since March. – Reuters

Fired diamond sorter will see mining firm in labour court

CT (MR) 18/6/99 (216)

Ronnie Morris

Cape Town – Benguela Operations, the ocean diamond mining company, must explain to the labour court on Monday why it fired a ship-based diamond sorter who refused to submit to random lie detector tests

Ruth Cunningham told the court in papers that early last year she and three fellow employees were told the company had decided to introduce polygraph tests with immediate effect

Peter Schroeder, the human resources manager, told her that anyone who failed the test would be asked to leave

Cunningham said she refused to consent to the polygraph tests on the grounds that it was grossly unreasonable and an invasion of the privacy of employees not suspected of theft She was aware that polygraph test results were not reliable

Schroeder told her the decision to introduce the tests was particularly motivated by a murder which had occurred on a De Beers Marine diamond vessel

He further indicated that the questions which would be asked during tests would include questions concerning the employees' personal lives and whether they had stolen anything, Cunningham told the court

When attempts to coerce her into consenting to the tests failed, she was suspended and told she would be relocated to Benguela's office at Port Nolloth But to get the job she had to sign the consent form, she was told

Two days later she was told that polygraph testing was a condition of employment and an operational requirement, and people not agreeing could not be employed

She was then retrenched, and the Commission for Conciliation Mediation and Arbitration failed to resolve the matter.

Cunningham told the court her constitutional rights to privacy, respect for and protection of her inherent right to dignity and the right to fair labour practice had been violated

Her dismissal was automatically unfair in terms of the Labour Relations Act because it was an attempt to force her to consent to polygraph testing

Cunningham wants the labour court to find her dismissal was automatically unfair, order her reinstatement from the date of her dismissal, interdict Benguela from attempting to compel her to submit to polygraph testing subsequent to her reinstatement, and order the company to compensate her in terms of the Labour Relations Act

De Beers first-half CSO sales soar 33%

(216) CT(OR) 18/6/99

JONATHAN ROSENTHAL
COMMODITIES EDITOR

London – Diamond sales by the De Beers Central Selling Organisation (CSO), which controls about 70 percent of the world's rough diamond trade, had soared by as much as 33 percent in the first half, analysts said yesterday

De Beers, which sells its rough diamonds at 10 sights a year, is to release sales figures next week Des Kilalea, an analyst at Fleming Martin, said in a report released this week that sales from the June sight were believed to have been worth $500 million, compared with around $400 million at this time last year Sales this year had been averaging $420 million a sight

"First-half CSO sales should be more than $2 billion, possibly as high as $2,25 to 2,3 billion This would be a very good total, 33 percent above last year and well above consensus forecasts of around $2,1 billion," he said

But the sharp recovery in sales should be seen in the context of last year's disastrous fall in diamond sales as the Asian crisis rippled through world economies.

"Other than last year, this would still be the lowest total since 1992," Kilalea said

He said indications were that second-half sales should firm, driven by strong retail demand in the US and a 24 percent rise in imports of polished diamonds to Japan this year. Prices have also been firming, starting with the stones at the bottom end of the market, although this should be followed by firmer prices on the better qualities

"Given good US and Japanese demand, CSO sales should rise comfortably above $4 billion this year (from $3,4 billion last year) However, millennium sales and better prices could add to that, leading to CSO sales of around $4,35 billion this year," he said This could increase De Beers' earnings to around R13,35 a share

De Beers' shares gained R2,20 to close at R142,00 yesterday.

Benguela labour case postponed

CT (AR) 22/6/99

(216)

RONNIE MORRIS

Cape Town – Labour Court action by a diamond sorter against Benguela Operations, the ocean diamond mining company, for sacking her when she refused to submit to lie detector tests was postponed yesterday by agreement between the parties

Ruth Cunningham, who was based on the vessel Moonstar, refused to submit to random polygraph tests on the grounds that it was grossly unreasonable, an invasion of the privacy of employees not suspected of theft and the fact that polygraph test results were not reliable

Cunningham was told that polygraph testing was a condition of employment and an operational requirement

In court documents, Cunningham contended that her dismissal was automatically unfair in terms of the Labour Relations Act because it was an attempt to force her to consent to polygraph testing

Cunningham wants the Labour Court to find that her dismissal was automatically unfair, order her reinstatement from the date of her dismissal, interdict Benguela from attempting to compel her to submit to polygraph testing subsequent to her reinstatement, or alternatively order the company to compensate her in terms of the Labour Relations Act

Benguela had briefed two polygraph experts to testify on the reliability of polygraph testing, while Cunningham had organised her own expert in a hearing that was scheduled for two days

The hearing is to resume on September 13

Benco thrown R21 million lifeline from competitors

(216)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

CT (BR) 30/6/99

Johannesburg – Mvelaphanda Diamonds and Trans Hex signed a R21 million rescue deal yesterday for Benco, the cash-strapped independent diamond producer, retaining the option of transforming the transaction into a R43 million takeover.

The deal comes a week after Tokyo Sexwale's Mvelaphanda Diamonds announced the acquisition of a significant minority stake in Gem, a JSE-listed diamond company, from JCI Gold and Consolidated African Mining.

It signals further consolidation among west coast diamond producers

Industry sources said a merger between Mvelaphanda and Trans Hex, the Rembrandt-owned diamond producer, was also on the cards

Mark Willcox, the managing director of Mvelaphanda, said the company had struck a deal with Benco to provide it with R11 million in cash

The loan would be backed by Benco's 7 percent holding in Diamond Fields International (DFI), a Canadian junior mining and exploration company that holds substantial concessions over the sea bed off the west coast

"We've given them R11 million and got the DFI share," Willcox said

"In 45 days we can either give them R10 million more and walk away with the shares or R30 million more and take over Benco."

Wilcox said the cash going to Benco would be used to pay an instalment on the Moonstar, Benco's production and exploration ship, and provide the company with working capital to continue exploration

The takeover was subject to a due diligence investigation that would hinge primarily on the question of whether the Moonstar was a sound vessel for exploration and production

Credit will help fund group's portion of Orapa mine expansion

De Beers bags R455m loan from four Botswana banks

CT (BR) 8/7/99 (12) (216)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg - De Beers concluded a 350 million pula (R455 million) loan facility yesterday with four banks in Botswana to help fund its portion of the 1,6 billion pula Orapa diamond mine expansion, the diamond group said yesterday

The project would double Orapa's diamond production to about 12 million carats a year and increase Botswana's diamond production to about 25 million carats

De Beers said the funds had been raised through loan agreements signed with Barclays Bank of Botswana, First National Bank of Botswana, Standard Chartered Bank Botswana and Stanbic Bank Botswana.

James Allan, a diamond analyst at Barnard Jacobs Mellet, said the increased production coming out of Orapa would put a surplus of diamonds on the market unless there was strong demand growth in markets such as Japan and Asia

Allan said the timing of the project had most likely been planned to coincide with a decline in diamond production from the Argyl mine in Australia

"It has added additional supply into the market at a time when supply and demand is in balance"

But the increased supply would not influence the price because it fell under the control of De Beers, which could either absorb the excess production through the Central Selling Organisation or impose a production quota on the Orapa mine

"It raises the proportion of De Beers diamonds produced from Botswana and increases the proportion of world production that is under the direct control of De Beers," Allan said

De Beers said the expansion was the single largest investment project in Botswana and would have a positive influence on the country's economy. Construction jobs have increased the number of employees on the mine from 800 to 2 000, while the project will create 200 permanent jobs.

De Beers gained 80c to R149,80 on the JSE yesterday

De Beers resumes export of diamonds despite valuation row

eT (MR) 9/7/99 (216)

JONATHAN ROSENTHAL

Johannesburg – De Beers, the world's leading diamond producer, has lifted its self-imposed moratorium on diamond exports from South Africa despite the fact that it has yet to resolve its continuing dispute with the government diamond valuator

Tom Tweedy, a De Beers spokesman, said yesterday De Beers had resumed exports in late June and was now exporting about 70 percent of its South African diamond production

The exports were those that had been signed off by the government valuator, while the remaining 30 percent (by value) were still the subject of talks with the valuator.

"Exports have resumed of goods in respect of which there was no dispute. That does not resolve the impasse but is encouraging," Tweedy said

De Beers halted diamond exports some three months ago after the government diamond valuator seized an export shipment, arguing that De Beers had undervalued the diamonds.

The dispute, which hinges largely on differences between the De Beers book value of diamonds and their actual market value, was referred to the previous mineral and energy affairs minister, Penuell Maduna.

At the time, Maduna said both parties should resolve the dispute through reference to existing mechanisms in the Diamond Act He also said he would launch an investigation into possible tax evasion in diamond exports as well as review the Diamond Act

It is understood that Nicky Oppenheimer, the chairman of De Beers, met Phumzile Mlambo-Ngcuka, the new minister of mineral and energy affairs, yesterday to discuss the issue

LOGJAM *Nicky Oppenheimer takes a hand in the dispute*

Tweedy said the bulk of the exports went through just before the end of June, allowing the group to incorporate them in their half-year financial statements

De Beers warned in June that the dispute and halt on exports would have a negative effect on earnings for the half-year. Similarly, Avmin, which is entitled to almost half the pretax profits generated by the De Beers Venetia mine, warned last month that its earnings would be dented by an expected fall in the royalty payment from De Beers

It said its earnings for the half-year to December 31 could be materially affected by the halt in diamond exports.

Late last month De Beers reported a 44 percent rise to $2,4 billion in first-half diamond sales by the Central Selling Organisation.

It said sentiment was helped by better than expected Christmas sales in the US and tentative signs of recovery in the Far East

De Beers shares gained 2,5 percent to R153,60 yesterday.

De Beers refuses to move stockpile

(216) CT(MR) 12/7/99

ANTONY SGUAZZIN

Johannesburg – De Beers, the world's biggest diamond company, has refused a request by the state-appointed gem valuator to move its stockpile of South African-mined gems from London to Johannesburg to help settle a tax dispute

De Beers, which controls 70 percent of the world's diamond market, this weekend confirmed a report in a weekly newspaper that the valuator, DVIC Valuations, wanted De Beers to move its stockpile

De Beers' sales arm holds $1,8 billion of diamonds from different countries in London The company said the stockpile was irrelevant to the dispute over how much tax it pays on exports from South Africa.

Tracey Petersen, a De Beers company representative, said she was not able to say what proportion of the total stockpile consisted of South African diamonds

"We don't understand the need for the stockpile to be relocated Those diamonds were signed out for export," Petersen said DVIC was not immediately available for comment

De Beers' refusal to move the diamonds is likely to prolong the dispute, which began at the beginning of April and halted exports from South Africa, the world's third-biggest diamond producer, for 11 weeks

De Beers and DVIC then agreed to resume exports while continuing talks DVIC accused De Beers of underestimating the value of gems it sells abroad to save on tax

De Beers moved its stockpile of South African diamonds to London in 1993 The stockpile is used to provide gems for the 10 sales held annually by the sales arm, the Central Selling Organisation

De Beers rose R4,40, or 2,8 percent, to R157,80 on the JSE last Friday – Bloomberg

De Beers goes fishing for diamonds in Botswana

(216) BD 4/8/99

Victor Mallet

Financial Times

THE Aquarium on the edge of the Kalahari desert is not a fish tank, but a tall blue building — thought to be the tallest in Botswana — housing dozens of new machines designed to improve the recovery of diamonds at the world's richest diamond mine

When it comes on stream next year, the Aquarium — with its modern laser and X-ray machines and high-technology security devices — will replace the plants used in the final stages of separating diamonds from the volcanic kimberlite of the Jwaneng open-pit mine

So called because it contains a Completely Automated Recovery Plant (Carp) and a Fully Integrated Sort House (Fish), the Aquarium project will cost Debswana, the joint venture between the Botswana government and De Beers, a relatively modest 360-million pula

But its systems are likely to become the models for other operations of De Beers

Last year Jwaneng produced 12,8-million carats, worth more than $1bn, and accounted for more than half of Botswana's foreign earnings Debswana plans to raise output to at least 13-million carats a year

'This mine is an extremely rich mine, certainly the richest diamond mine in the world," says GM Derrick Moore "We produce more diamonds here than all SA mines put together "

Among the technological innovations in the Aquarium is the use of X-ray machines — there will be 19 in all — to pick out the smaller diamonds

It has long been known that diamonds fluoresce under X-rays, but until now smaller stones at Jwaneng have been captured by means of a grease belt, which is only about 94% efficient

In the sorting house, Jwaneng's pride and joy will be its four single-particle laser sorters They examine chunks of rock and rough diamonds one by one and select the diamonds before they are cleaned and packaged for transport to Gaborone and later London

The Aquarium is expected not just to improve recovery rates and allow the reprocessing of old stockpiles of kimberlite ore from the pit

It should also reduce losses through theft

Security is an obsession at De Beers diamond mines, and Moore believes Jwaneng has less of a problem than some of its sister mines in Africa But the advantage of the "hands-off" Aquarium is that there is no reason for the staff — there will be only six of them per shift, four operators and two for maintenance — to touch the diamond-rich ore as it moves through the machines

If a machine does need fixing, it will first purge itself of ore The technician will be watched by cameras both inside and outside the equipment, timed on the job, and have his access restricted to the particular item that needs attention

Another benefit of the Aquarium is that it will allow accurate information about the size and quality of diamonds found in the ore to be fed back rapidly to the miners in the open pit nearby, so their operations can be adjusted accordingly

Nabera alleges large-scale fraud

Axe hangs over board of Alexkor

CT (BR) 11/8/99 (216)

ZINTLE FILTANE

Johannesburg – A damning report on mismanagement at Alexkor the state-owned diamond mine, could result in the restructuring of the entire Alexkor board government sources said yesterday.

The report compiled by the Nabera consortium which won the management contract last year alleged 'large scale theft poor financial management and the mismanagement of the subsidisation of non-core assets"

A Nabera board member suggested that the acquisition of non-core assets, which included mariculture agriculture and tourism had been "embarked upon without adequate foresight or direction"

The sources said the allegations were so serious that a detailed investigation would be necessary

Jeff Radebe, the public enterprises minister, confirmed receipt of the report and said he would announce a course of action in a few days.

He reiterated his commitment to rooting out corruption in state enterprises and ensuring effective and efficient management.

Nabera believed Alexkor could be turned around in three to six months without any job losses by increasing the scope of mining and improving security.

The turnaround would cost R120 million which was earmarked for exploration. R70 million would go into land exploration while R50 million was set aside for marine exploration.

But now that Alexkor was expected to post losses of up to R65 million in the year to June 30 1999, a portion of the R120 million might have to be used for operational costs.

Nabera's turnaround strategies included a thorough evaluation of mining and management systems and subcontracting proposals on shallow water marine mining designed to create, rather than cut, jobs.

Nabera identified cost cutting and efficiency measures that would enable the mine to return to profitability These included significant cuts in management salaries and expenses, which another Nabera board member described as "outrageous"

The report said the government should not allow the crisis to reach critical proportions that had the potential to cripple the region.

Alexkor was a major employer in the Northern Cape, an area of high unemployment.

Industry analysts criticised the government, saying the delay in the conclusion of state undertakings with regard to the consortium's investment could have contributed to the further deterioration of Alexkor.

Other delays were caused by tension between the boards of Alexkor and Nabera, which were both responsible for decisions even after the management contract was awarded.

One analyst said the government had handled the matter bureaucratically rather than strategically and hoped the matter would be resolved soon

Radebe will meet the Alexkor board later this week.

TRADERS WARNED

'Fake' diamonds to hit city streets

(216) CT 11/8/99

A DIAMOND look-alike is to be released on to the South African market — and it has already fooled some diamond traders. **DAVID LEWIS** reports.

DIAMOND traders and jewellers have been warned by a local company, Moissanite SA, to be on the lookout for moissanite gems being passed off as diamonds A moissanite gem looks exactly the same as a diamond to the untrained eye, and the difference cannot be detected by conventional testing equipment.

"Moissanite tests positive as a diamond with a standard diamond tester," said Leo Levine, director of Moissanite SA The company plans to market moissanite exclusively to wholesalers, along with a new brand of tester

"Wholesalers are free to sell to the public," said Levine, who warned that there may be black-market moissanite available in the country

In a report carried by *Rapaport*, the diamond industry bible, Alan Smith, the official distributor of moissanite in Britain, warned traders to be on the lookout for "con-men, posing as customers, (who) could try to sell the stone over the counter as part of a piece of

Turn to Page 3

FOOL'S DIAMOND. It looks like a diamond, costs half the price and is fooling diamond traders The moissanite gemstone is on the left PICTURE: BENNY GOOL

Bogus gems

(216) CT 11/8/99

From Page 1

jewellery " Smith wrote that some 20 000 carats of moissanite are circulating on the international black market.

However, moissanite stones are not identical to diamonds and do not have the same weight, scratch-resistance or luminescence.

According to Louise Swanepoel, an independent gem expert, a moissanite gem has "more fire" and is "more brilliant" than a diamond. She added that the laboratory-created moissanite has a lustre that is different from that of diamonds.

The gemstone, manufactured by C3 Inc in the US, was discovered in meteorites and has a tell-tale double refraction

Brian Magid of Panda Diamonds in Cape Town had to take a second look when shown a moissanite stone "It just didn't look right, so I stuck it under a microscope and saw there was something wrong with the facets.

He sounded a warning to buyers "You've got to look with a new eye, look out for the diamond that isn't and buy from a reputable source, making sure the stones are certified."

This view was reiterated by Ernie Blom, chairperson of the South African Jewellery Council "Buy through reputable dealers displaying the Jewellery Council logo Moissanite is the closest substance to diamonds," he said, "but it's still far away from the real thing."

"The gemstone will unfortunately be passed as diamond by all current thermal pen testers," said Blom "But there are ways to tell the difference, and De Beers has an instrument for assessing diamonds, the Diamondsure, which rejects moissanite and all other synthetics "

The release of the moissanite gemstone has raised questions about the future of diamonds and the diamond industry, but its introduction has come as no surprise to Les Milner, head of the Jewellery Council diamond laboratory "It's just the tip of the iceberg," said Milner

Most authorities questioned were quick to point out that the moissanite stone, named after Nobel Prize-winner Dr Henri Moissan, is atomically different from the diamonds Moissanite is known chemically as silicon carbide, whereas diamond comprises pure carbon

However, the fact remains that the industry is getting closer to synthesising real diamond Artificial diamonds have already been created in laboratories and there exists a ready market for artificial gemstones styled after rubies, emeralds and sapphires.

"They've all been sold as synthetics," said Swanepoel. "But one must distinguish between what is natural and synthetic."

Information sent to South African gem dealers by the Jewellery Council suggests that moissanites of different hues could follow soon. "The situation seems remarkably like one cartel taking on another," Levine said "C3 Inc created the poison and now they are selling the antidote," he says, referring to the company's patented tester and the De Beers diamond cartel.

De Beers and valuator agree

(216) BD 12/8/99

Ilja Graulich

DE BEERS, the world's biggest diamond company, said yesterday that it had reached an agreement with the government diamond valuator on diamond exports.

The dispute started in mid-April when the valuator and De Beers disagreed about the value of a consortium of diamonds destined for the export market.

De Beers MD Gary Ralfe made the announcement yesterday during the presentation of the company's interim results, which saw headline earnings dip 31%.

He said an "agreement has been reached and export documents have been signed".

The documents cover the export of Series 92-93-94, totalling $120m, which include a batch of diamonds that were not exported Diamonds that were not in dispute in terms of valuation were exported at the end of June.

Ralfe said that the company and the valuator had also reached an agreement — but had not signed it — for exports relating to the second half of the year.

Ralfe said speculation that De Beers was trying to avoid the regulations in the Diamond Act of 1986 were unfounded The company had checked its records to ensure that the law was followed and asked for legal opinion on the matter. Lawyers had confirmed the firm had adhered to all articles of the act.

Ralfe said the experience was "bruising" and it would take a couple of shipments to bring everything back in order

De Beers said no sales hiccups had been experienced during the impasse as it was able to source diamonds from other areas and make use of its $5bn stockpile in London.

Results dip: Page 15

Board members cost Alexkor nearly R4m

(216) : PD 12/8/99

The mine also faces losses of R5m a month, a report reveals

Reneé Grawitzky

ALEXKOR, the state-owned diamond mine in the Northern Cape, is spending close to R4m a year on the salaries and travel expenses of two government-appointed board members whose full-time responsibilities lie elsewhere

The costs are being incurred at a time when the mine faces losses of R5m a month. If this trend continues, it faces a bank overdraft of more than R60m by next year

These details emerged in a report compiled by Nabera, a consortium awarded a contract in February to manage the mine pending privatisation Following lengthy and protracted negotiations, Nabera only took over management of the mine in June

Alexkor general manager Ralph Bagirathi said yesterday the intention of the report was to highlight to government areas of concern around the operation of the mine and to list cost-cutting areas which formed part of Nabera's overall strategy to turn the mine around

Cost-cutting areas included exorbitant expenses incurred by Alexkor board members, some of whom had abused their positions to ensure personal expenses were paid for by the company Others related to the renegotiation or cancellation of contracts, some of which could cost the company R8m a year

Before Nabera took over management of the mine, former public enterprise minister Stella Sigcau conducted an investigation into alleged irregularities around the awarding of contracts by the former mine management

The mine said the Alexkor board had prevent Nabera from going ahead with this

Mine sources said tension had been brewing between some of the board members and Nabera management for some time

Alexkor's restructuring and transformation committee recommended two years ago that the composition of the board should change to encompass individuals with a greater understanding of the technical aspects of diamond mining operations

Another mining source said the intention of the report was to support motivation to restructure the board and ensure more mining- and business-oriented people were represented

Nabera was not considering retrenchments but was engaged in talks with the union around raising productivity and reducing unit labour costs.

The report, handed to government last week, also looks at the state of the mine's noncore assets such as agriculture

The management of noncore assets has been a contentious issue and does not form part of Nabera's management contract These assets are supposed to be managed by a committee, but the mine still subsidies these operations

Department of mineral and energy affairs is called in

Radebe calls for Alexkor inquiry

(216) CT (MR) 13/8/99

ZINTLE FILTANE

Johannesburg – Jeff Radebe, the public enterprises minister, asked the department of mineral and energy affairs to lead an investigation into the Nabera Consortium's report on alleged mismanagement at Alexkor, Ian Phillips, a special adviser to Radebe, said yesterday

Phillips said the department had been asked to ensure that the investigation was conducted quickly and "to come forward with clear recommendations for the minister's consideration" Radebe hoped this would be completed in a week, Phillips said

The Nabera Consortium, which won a two-year management contract for Alexkor, the state-owned diamond mine based in the Northern Cape, had compiled a damning report on mismanagement of the mine The Nabera report alleged large-scale theft, poor financial management and other irregularities

The investigation's team would be composed of representatives from the Northern Cape government, the mineral and mining private sector, the department of mineral and energy affairs' financial department, and possibly someone from either the national public prosecutor's office or the auditor-general's office

ANSWERS WANTED *Jeff Radebe, the minister of public enterprises*

Manne Dipico, the Northern Cape premier, confirmed yesterday that he had seconded a qualified chartered accountant to the team

Dipico said Alexkor was a valued asset of the Northern Cape and Namaqualand region and corruption could not be afforded

"If it is taking place, it will be rooted out," he said

"This area would be doomed as far as jobs are concerned if the mine failed"

Dipico said Radebe's initiative and decisive action were appreciated because Alexkor, as a public asset, would be a catalyst in the further development of the Northern Cape's economy

But Radebe did not escape criticism from industry watchers, because Bridgette Matsepe, his wife, was the chairman of Nabera Phillips said it was Matsepe's professional experience and expertise that earned her her seat, not her marriage

"The minister was never part of any decision concerning Nabera," he said

"We concentrate on credible business principles and corporate governance ethics in this ministry We therefore expect no less from ourselves than other people"

Phillips said the meeting between Radebe and the board of Alexkor yesterday was routine

Sale volumes expected to achieve historic levels this week as demand grows

Rising diamond hunger feeds De Beers

(216) CT(Bus)26/8/99

ANTONY SGUAZZIN

London – De Beers, the diamond company that controls 70 percent of the world market, could sell as much as $700 million of gems this week in a record sale boosted by surging demand and dwindling competition from other African suppliers, analysts said yesterday

Such a sale, one of 10 held every year would almost double the results from last year, when De Beers raised $365 million, analysts said One estimate was as low as $500 million, while the mean estimate was $646 million

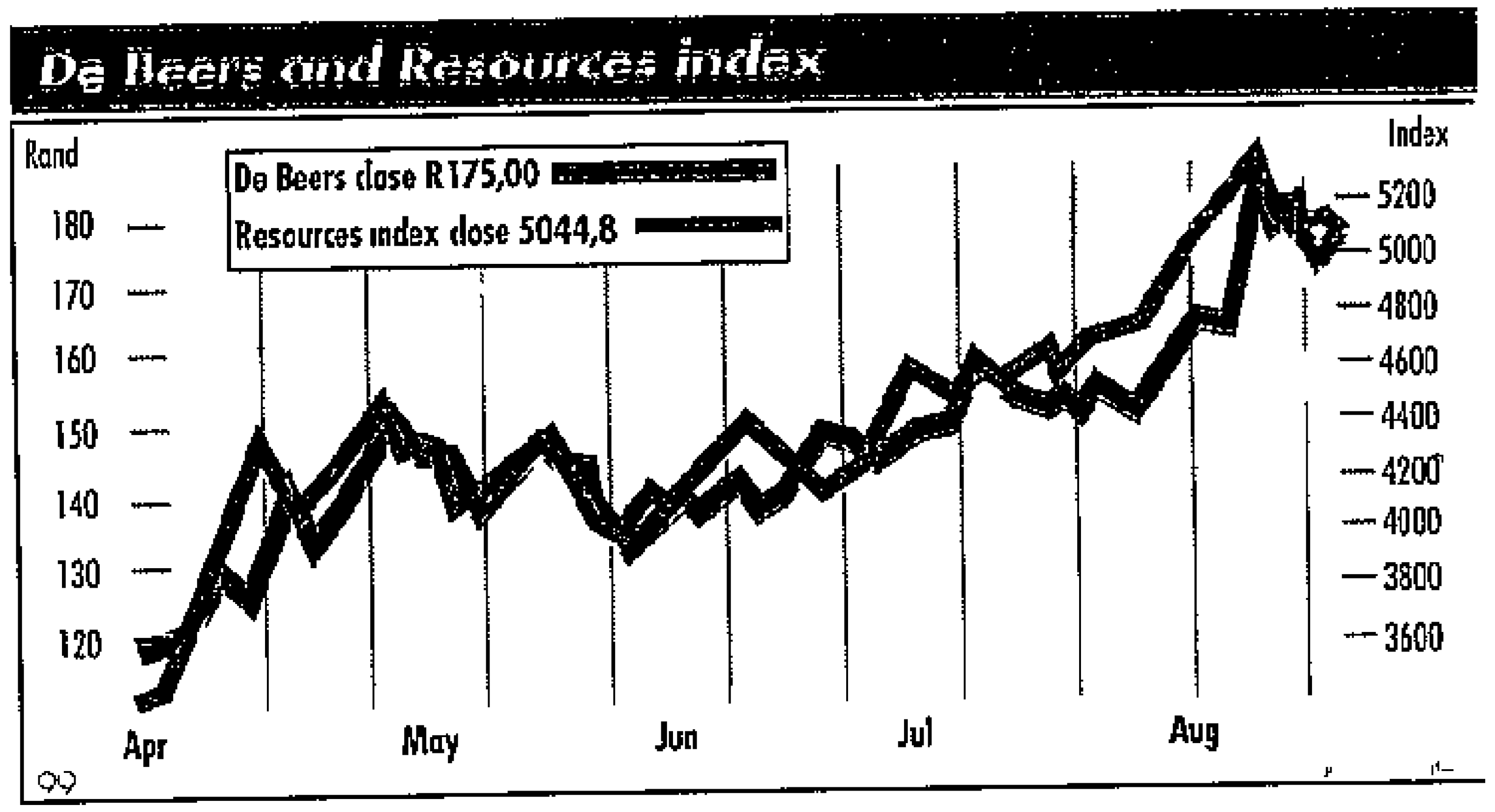
Demand for De Beers' uncut stones was increasing in the US, which represents almost half of global sales, and in parts of Asia, analysts said At the same time, supplies were being reduced from war torn Democratic Republic of Congo and Angola, the world's fourth and fifth biggest suppliers, respectively

'There is strong demand in the US, and Asia has turned around,' said Allan Cooke, an analyst at Rice Rinaldi Securities

"People aren't seeing any downside, compared to the gloom of last year (when De Beers diamond sales were at an 11-year low)'

While De Beers does not report the size of individual sales, analysts said there had been sales of more than $600 million

US consumer spending grew at an annual rate of 4 percent in the second quarter, its sixth straight quarterly rise at this level or better First-quarter import volumes in Japan, the world's second biggest diamond consumer, swelled 30 percent



Diamond sales worldwide could also be boosted by the company's millennium diamond-marketing programme, which encourages consumers to buy jewels to celebrate the year 2000

Just as demand is improving, African civil wars have dried up supply from government operations and rebel-held mines, which smuggle the gems and sell them outside De Beers' Central Selling Organisation

Agence France Presse reported yesterday that Angola's government and Unita, the rebel movement, had sold $270 million worth of gems in the first seven months of this year

At this rate Angola would supply $463 million of gems this year, just over 70 percent of its usual supplies, said Bobby Craig an analyst at Merrill Lynch "There is a restricted supply to the market," he said "That allows De Beers to make up ground"

De Beers could sell even more gems this week if it chose said Hennie Vermeulen, an analyst at Investec Securities Vermeulen believed there was enough demand for De Beers to sell $850 million of diamonds

Last year De Beers restricted supply to the market to protect prices as demand fell While analysts said the policy had relaxed, the company said it was still in force

De Beers has yet to capitalise on the growing demand by raising prices, though companies that sell outside of De Beers, such as Ocean Diamond Mining, reported that they had raised gem prices by a fifth from July 1998

Some analysts said De Beers' gem sales for all of 1999 could be as high as $5 billion, eclipsing the previous record of $4,83 billion in 1996 and close to 50 percent higher than last year's $3 5 billion

First-half sales, released in June, rose 44 percent from the previous year to $2,45 billion

This week s sale was likely to be the biggest of the year, said the analysts, as diamond cutters bought supplies to meet peak demand during fourth quarter holidays in the US and Europe

De Beers shares rose 60c to R175 on the JSE yesterday Its market value has more than doubled in the past year – Bloomberg

DE BEERS/ GOVERNMENT DIAMOND VALUATOR

IT'S STILL NOT SETTLED

Valuation controversy drags on mysteriously while sales boom (216) FM 10/9/99

De Beers has resumed diamond exports from SA but the dispute with the Government Diamond Valuator (GDV) appears far from settled, despite De Beers MD Gary Ralfe's optimism about the situation

When De Beers presented its interim results, Ralfe reported that agreement had been reached to export the balance of the diamond shipments for the first half of the year that had been held up by the GDV

The terms of the settlement forced De Beers to agree to a valuation 4% higher than what it regarded the diamonds were worth in terms of its own standard selling value (SSV) assessment, which is the price the Central Selling Organisation (CSO) charges for the diamonds in London

The nub of this dispute is the concept of fair market value Ralfe, for the first time, publicly spelt out De Beers' stance, which is that fair market value equals the SSV, as opposed to the new GDV's opinion, which is that fair market value is the spot market valuation

"We really must be the arbiter of what is fair market price because the major diamond market anywhere in the world must be the sights that take place 10 times a year in our offices in London," Ralfe said

He added that agreement for the export of Series 95 — the first diamond shipment for the second half of 1999 — had been reached using the SSV and he believed the valuation method would now revert to the former practice of using the SSV

Ralfe said he hoped this would establish a new pattern of co-operation between De Beers, the GDV and the SA Diamond Board A De Beers spokesman confirms Series 95 went out at SSV and that exports remain "on schedule", though Series 96 has yet to leave the country

Diamond Board CEO Victor Sibiya says "diamond exports are taking place under certain interim arrangements that have been put in place while various issues are still being discussed by the Diamond Board, De Beers and the GDV"

But neither Sibiya nor De Beers gives details of these interim arrangements or what is still being discussed

If the situation seems confusing, that's because it *is* confusing and this is confirmed by a JSE diamond analyst who queries De Beers' belief that the export process is back on track

He says it is hard to understand how a disagreement affecting US$127m worth of diamonds could last for four months when the net gain to the fiscus is only about R40 000, being 0,15% of the difference between the SSV and the GDV's export value This is the levy that goes to fund the Diamond Board

"Was the country supposed to be denied $127m of forex when only R40 000 was at stake?" he asks, describing the situation as "bizarre"

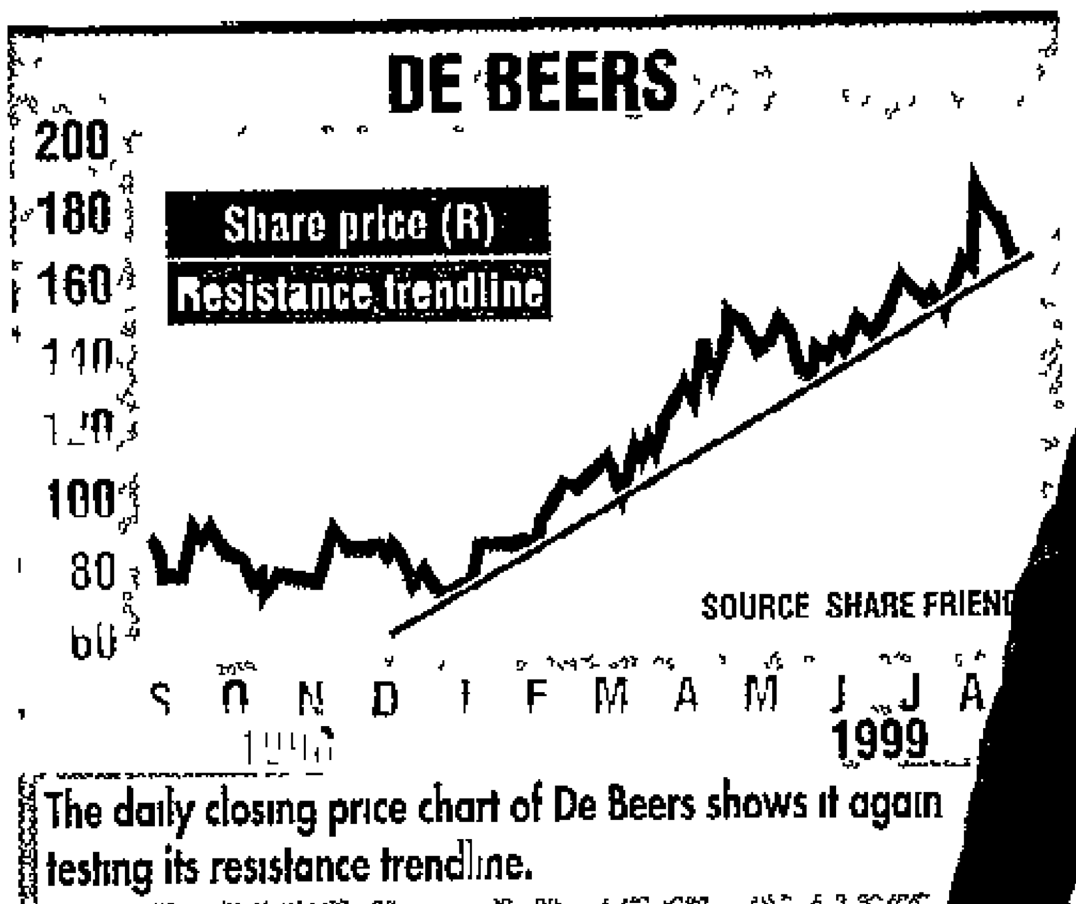
Another "innocent bystander" caught in the crossfire is Anglovaal Mining (Avmin) chairman Rick Menell, whose profits are being whittled away Avmin gets a 43,7% share of the profits from the Venetia diamond mine in the Northern Province and this share dropped to R81,1m in the six months to June from R119,1m in the six months to December and R143,8m for the previous comparable period to June 1998

That has to be seriously frustrating, as Avmin has no real say in whatever is taking place because the marketing of the diamonds rests solely with De Beers Menell confines himself to noting De Beers has not yet informed Avmin of a final resolution of its dispute with the GDV and that Avmin's earnings in the six months to end-December could be hit again

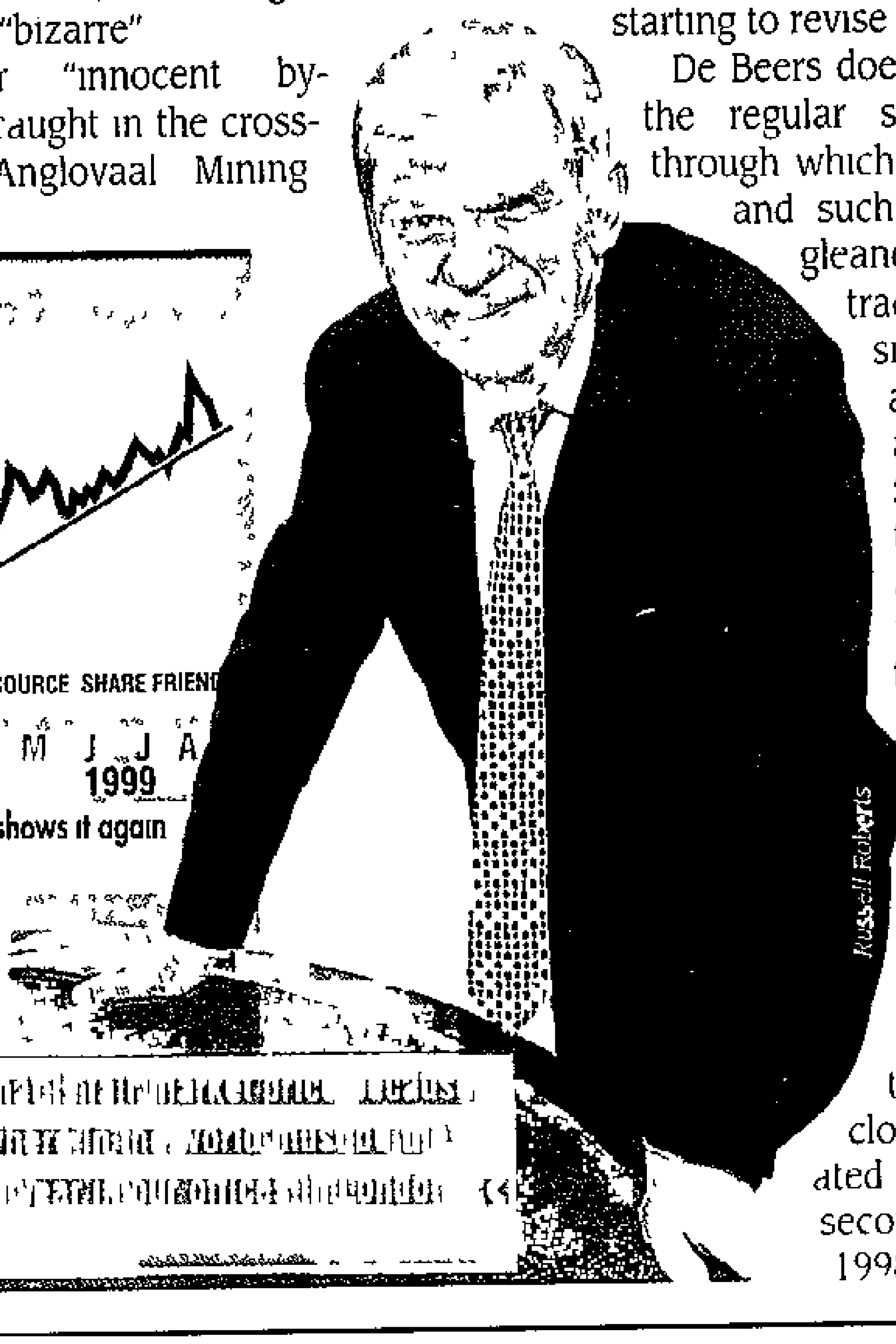
Meanwhile, international sales of rough diamonds are booming and the CSO looks set to rack up a record year's level of more than $5bn, says independent diamond analyst James Picton The previous record was $4,83bn, achieved in 1996 Most analysts have been looking for total 1999 sales of about $4,5bn but some are now starting to revise their numbers

De Beers does not provide figures for the regular sights held in London through which it sells rough diamonds and such information has to be gleaned from the diamond trade Picton says the July sight was about $600m and the August sight was apparently more than $700m — a record for that particular month and possibly an all time monthly record He adds that early indications are that September could hit $600m again

"Importantly, the August sight was well received by the sightholders, who are confident they can onsell the rough diamond through the pipeline It was a clogged pipeline, which created a lot of the trouble in the second half of 1997 and in 1998," says Picton **Brendan Ryan**



The daily closing price chart of De Beers shows it again testing its resistance trendline.



MAIL & GUARDIAN
September 17 to 22 1999

State aids contract with minister's wife

M&G 17-22/9/99 (216)

Mungo Soggot

The Department of Public Enterprises is going to extreme lengths to shore up a crumbling deal with a private company to run the ailing state diamond company Alexkor

The Minister of Public Enterprises is Jeff Radebe, and his wife Bridget, chairs the private company involved Nabera

For several months, Nabera has been in danger of losing its contract because of its failure to put up R120-million

The contract that gave Nabera the job in February stipulated that Nabera had to show its financial mettle by raising R120 million by June But Jeff Radebe s department which presides over Alexkor, has twice extended Nabera's deadline for the money

Without the government's intervention, the entire agreement would have fallen away Radebe was not public enterprises minister at the time the contract was awarded, taking over the portfolio only in the June Cabinet reshuffle.

This week the department went a step further in its lenient treatment of Nabera As the company was coming up against its latest deadline — September 16 — the department proposed renegotiating Nabera's contract.

In an internal memo, the department acknowledged that Nabera could not come up with the money under the original contract "Our perspective is that Nabera is unable to comply with the condition precedent and will need to renegotiate the contract to enable ourselves to deal with the situation," the memo says

Instead, it suggests, the government will have to raise the necessary money itself, to invest in and support Alexkor

Nabera beat two other shortlisted consortia for the management contract including a group led by diamond giant De Beers The creation of the management contract is considered the precursor to Alexkor s full privatisation in two years' time. One of the conditions of the tender was that bidders put up a sum of money to show they were capable of investing in the mine

The original Nabera contract says that at the end of Nabera s two-year management stint Alexkor must refund the R120 million and that if Alexkor is unable to do so, the government will step in

Some diamond company analysts questioned the selection of Nabera in February over what appeared to be more experienced bidders — in particular De Beers — and said the decision to appoint Nabera had been 'political

The link between Jeff and Bridget Radebe fuelled criticism of the selection process However, at the time Jeff Radebe was minister of public works Bridget Radebe's Mmakau Mining has a 20% stake in the Nabera consortium

The memo adds that Nabera's "skills set should be re evaluated during the renegotiation of the contract It also recommends "a detailed review of the business plan and long term programme of Nabera for Alexkor"

'Our perspective is that Nabera is unable to comply with the condition precedent and will need to renegotiate the contract to enable ourselves to deal with the situation'

Jeff Radebe's press officer Zaid Nordien, said this week the department had decided to renegotiate the contract because Alexkor was in much greater financial difficulty than previously thought.

"A drastic change in the material conditions since the time of going out to tender until the appointment of the management contractor has necessitated a review of the details of the contract

He confirmed that under the new proposal Nabera would not have to put any actual money on the table, but said Nabera was the only company capable of turning around the mine Nordien said that any changes to the contract would have to be vetted by an interministerial committee on privatisation

Nordien said the same committee had sanctioned the extension of Nabera's deadlines

Nordien added that the government did not want to consider retendering as the delay this would cause could jeopardise the mine

He said that financial institutions approached by Nabera had not been satisfied with the strength of the contract — even though it said the government would stand surety for Alexkor if Alexkor could not repay the R120 million

Nabera's chief executive officer, Larry Neuhoff said Nabera had had access to the R120-million funds for 10 weeks

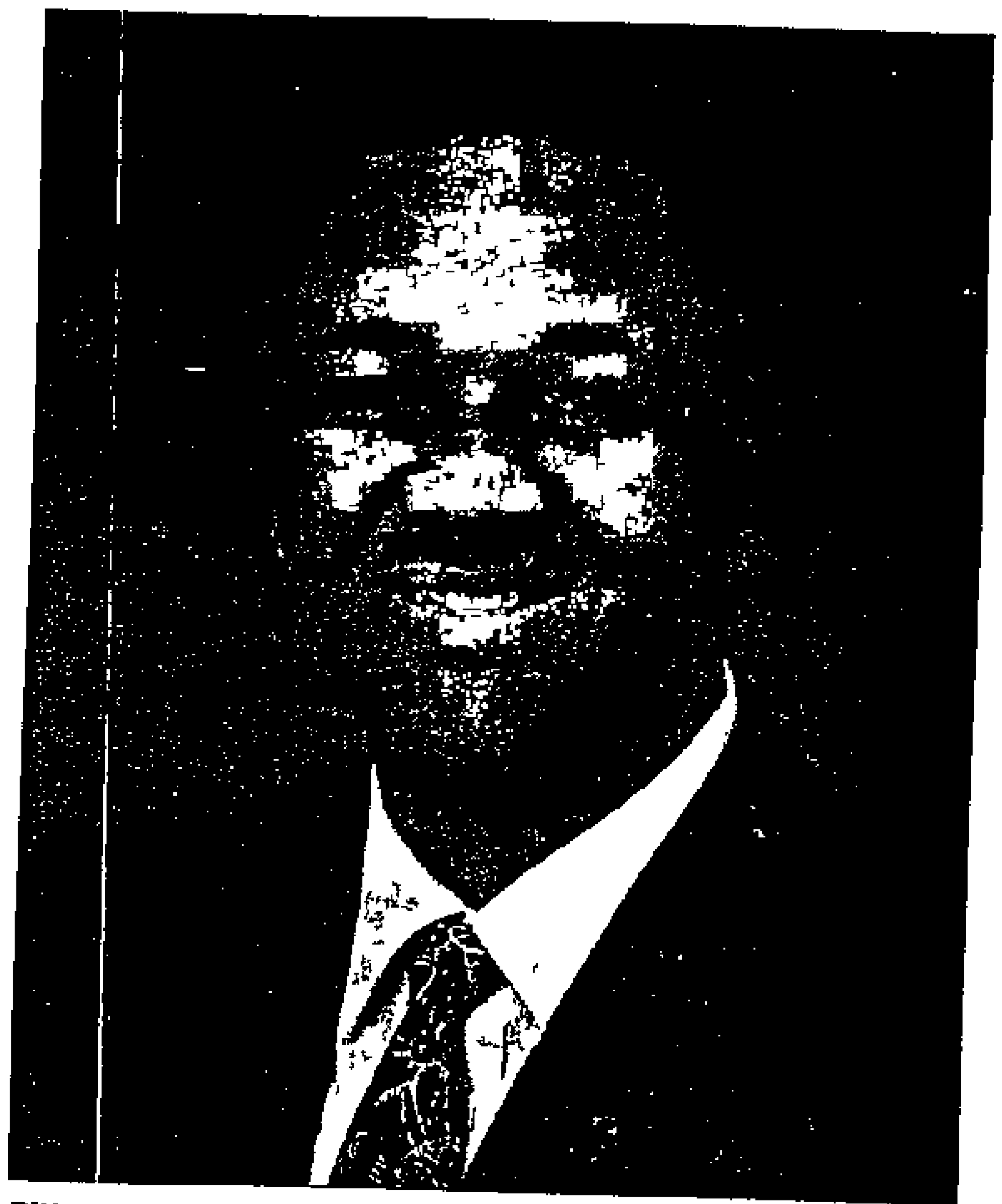
Industry analysts said the government's safest way of dealing with the ongoing fiasco at Alexkor would be to reopen the tender

The government's latest efforts to keep Nabera come amid bitter relations between Nabera and some Alexkor board members and staff, who are unimpressed with the company's performance so far

One Alexkor board member who tendered his resignation is the parastatal's contract compliance officer, Pius Mokgokong He wrote a letter in August to Nabera stating that the management contract was void because Nabera had failed to come up with the R120-million

The letter, written on August 17, said The 60-day period expired on 19 July 1999 and Nabera Mining has failed to comply with the clause [the financial guarantee] referred to above As compliance was a condition precedent to the agreement it does appear that the contract between Nabera Mining Pty Ltd the Government of the Republic of South Africa and Alexkor is of no effect "

Nabera replied curtly the following week "We do not accept the facts as stated in your fax, and have referred the matter to your shareholder [the government] We suggest that the Alexkor board discuss the issue with its shareholder'



Bitter conflict Minister of Public Enterprises Jeff Radebe's wife, Bridget, chairs Nabera, the company that runs the Alexkor mine

Approached this week Mokgokong confirmed he had written the letter and tendered his resignation, but refused to comment further

Radebe's office said Mokgokong retracted his resignation this week

The chair of Alexkor, Nono Gosso, did not respond to requests for comment Other Alexkor officials said she was wary of talking to the press after having incurred much criticism for discussing the matter with a Cape newspaper She was quoted last month saying that the government had extended Nabera's deadlines without the board's approval and in contravention of the contract

In July, Nabera released a four page memo accusing the Alexkor board of milking the state for unnecessary expenses and suggested it had allowed Alexkor's management to deteriorate A day after Nabera released the memo Jeff Radebe ordered a probe into the allegations The investigation was carried out by officials in his department and in the departments of finance and minerals and energy

Meanwhile one of the unions at the Northern Cape mine, the United Association of South Africa, this week slated Nabera for having caused a collapse of productivity and morale.

Under Nabera s current agreement Nabera gets R100 000 a month or 20% of the mine s profit as well as up to R500 000 in expenses

The brains behind the Nabera consortium is Adonis Pouroulis, a Cypriot with extensive mining experience in Southern Africa His company, Petra Mining, which has a 29 5% stake in the consortium, is listed on the London Stock Exchange

Another member of the Nabera team, Salene Mining, is run by the Pouroulis family. Salene and Loucas Pouroulis masterminded a failed platinum mine venture in the 1980s, which burned many investors

Adonis Pouroulis is deputy chair of the Nabera consortium

Nabera appears to have split the Alexkor board, with some members expressing support for the Nabera managers and others expressing their unease at what they termed Nabera's "coup"

Independent diamond analysts familiar with Alexkor said there were significant problems with Alexkor's management — in particular its shoddy security, which is rumoured to have allowed substantial portions of the mine s annual gem production to be stolen

MAIL & GUARDIAN
October 1 to 7 1999

Radebe gets tough with Nabera

(216) M+G 1-7/10/99

The Ministry of Public Enterprises has given Nabera, the company which runs ailing state diamond company Alexkor, a deadline to fulfil its contractual obligations

Donna Block *and* **Mungo Soggot** *report*

The Minister of Public Enterprises, Jeff Radebe, moved swiftly this week to extricate himself from the controversy surrounding a consortium chaired by his wife Bridget which won a contract to manage state diamond company Alexkor

Radebe has thrown down the gauntlet to the consortium Nabera which has come close to flouting its contractual obligations but which has until now appeared to enjoy lenient treatment from the government

The minister also announced that he was sacking the Alexkor chair and three board members as part of a drive to improve corporate governance in parastatals

He accused the errant board members of "neglecting their fiduciary responsibilities and questioned their competence to run the mine which is notoriously unproductive and the victim of systematic diamond theft

Nabera was supposed to come up with a R120-million loan by June to fund development at Alexkor and prove its financial mettle Nabera has to date failed to come up with the funds

Radebe s department which presides over Alexkor has authorised at least two extensions of the deadline leading to speculation that Nabera could be enjoying special treatment because of the relationship between its chair and the minister

Radebe was minister of public works when Nabera won the contract in February, but has been involved with negotiations surrounding the Nabera contract since his appointment in the June Cabinet reshuffle

Nabera has said it has the money lined up from a local financial institution, but that the institution has insisted that the government provide an unequivocal guarantee to repay the cash at the end of Nabera's two-year management stint

During the past few weeks there has been speculation that the government could provide this guarantee which would have exposed Radebe to allegations that he was being unnecessarily lax and generous with his wife s the company

But at a press conference in Pretoria on Thursday Radebe ruled out such a guarantee and said that if Nabera failed to come up with an unqualified' R120 million loan facility by October 7 the contract will be considered terminated as it stands

Radebe said that if Nabera missed its October 7 deadline the government would open up a new bidding process for the management contract

Nabera beat major diamond industry stalwarts including De Beers to win its contract, which is seen as a precursor to the mine's full privatisation

Meanwhile, Radebe also announced he had fired the chair of Alexkor, advocate Nono Goso and three other board members because of the findings of a probe into alleged irregularities that was undertaken by the director general of the Department of Minerals and Energy

Radebe said a forensic audit would now be launched into, among other things a missing R6-million that was supposed to be set aside for environmental rehabilitation, and a company car allegedly used by the Alexkor chair for private use

The decisions about Nabera s contract and the axing of the board were endorsed on Thursday by an interministerial Cabinet committee that handles the restructuring and privatisation of state assets

Asked whether the ministerial committee had broached the issue of whether he should recuse himself from dealing with Nabera in future if the company stayed on at Alexkor Radebe said there had been "no conflict of interest thus far" as he had not been minister of public enterprises when Nabera was selected

Probed further about his involvement with Nabera's deadline extensions and whether he might recuse himself in future, Radebe said he would consider the matter if and when a problem arose.

Radebe's Director General, Sivi Gounden said his department had taken a relatively long time to decide on how to deal with Nabera because it wanted to compile a plan to safeguard the mine from the inevitable disruption that would follow a termination of Nabera's contract

"We wanted to ensure that there was an appropriate strategy in place so as not to shut the mine Radebe said

Both the minister and his officials stressed the social implications of the closure of Alexkor, which is a major job provider in Namaqualand They said they had lined up officials from other parastatals, such as the Industrial Development Corporation who would be deployed to the mine as a caretaker management

The new interim team will keep the mine running if Nabera fails to meet its October 7 deadline and a new bidding process for a new management contract is launched

Radebe also announced the appointment of new Alexkor board members and a new acting chair, who will supervise the caretaker management until a new board is appointed

Gounden said he believed that the Department of Public Enterprises had now addressed all the questions that had been raised during the controversy

Getting tough. Minister of Public Enterprises Jeff Radebe. PHOTOGRAPH RUTH MOTAU

De Beers to stop buying all Angolan diamonds

CT(BR) 7/10/99 (216)

PETER FABRICIUS

Johannesburg - Global Witness, the non-governmental organisation which is mounting a campaign to alert diamond consumers that their purchases may be fuelling war in Angola and other countries, last night welcomed the decision by De Beers to terminate all diamond purchases from Angola to avoid funding the war effort of Unita

Alex Yearsley of Global Witness said if it was to be more than a public relations exercise, De Beers should clarify whether it had bought Unita sourced diamonds in the past, "as Gary Ralfe (the managing director of De Beers) admitted they had in Moscow in 1997"

On Sunday Global Witness called on diamond consumers to "ask companies such as De Beers what controls they will introduce to ensure that these conflict diamonds do not reach the marketplace"

Tracy Peterson, a spokesman at De Beers, said yesterday the decision to stop buying Angolan diamonds would have a "negligible" effect on the company's business because it had stopped buying in June last year in compliance with United Nations (UN) sanctions.

Allan Cooke, a diamond analyst at Rice Rinaldi Securities, said it would probably be good for business, by helping to run down De Beers's large stockpile.

Until this week, De Beers policy was only to buy Angolan diamonds that had been certified legitimate by the Angolan government.

But on Tuesday Ralfe said the company had placed an embargo on the purchase of all diamonds from Angola.

It was also ending its participation in all diamond buying operations inside Angola and was reviewing its buying operations in the Democratic Republic of Congo and Guinea, which were often conduits for illegal Angolan diamonds.

Ralfe said the decision meant De Beers was going further than the sanctions the UN had imposed last year to curtail Unita's diamond trade.

The only exception to the ban would be the diamonds which De Beers was contractually obliged to buy from SDM a joint venture controlled by the Angolan government and run by Ashton, an Australian mining company

Peterson said the decision had nothing to do with Global Witness but had been timed to coincide with a UN conference in Washington yesterday to discuss the success of UN sanctions against Unita

"So we made the announcement in advance of the conference to reassure everyone concerned that we are fully committed to ending the war

Cooke said the potential downside for De Beers was that the Angolan diamonds it would not buy could now flood the market from other sources

But he considered this risk small because the war was restricting trade - Independent Foreign Service

De Beers to stop buying Angola gems

(216)(6)

Move backs Unita sanctions

AEG 8/10/99

New York – A key United Nations diplomat has welcomed diamond industry leader De Beers' decision to stop buying Angolan gems as an "enormously symbolic" move to enforce sanctions against rebel leaders in that country's civil war.

"The message will be received by a number of other people," Canadian Ambassador Robert Fowler said, adding that he hoped other buyers of Angolan diamonds would follow De Beers' lead. Angola accounted for 6% of world diamond sales.

"I hope UNITA will receive the announcement as well," he said

Mr Fowler is chairman of the Security Council's sanctions committee on Angola, which supervised embargoes against UNITA, the National Union for the Total Independence of Angola.

They include a ban on diamond sales, an arms embargo and travel and financial curbs

The Security Council has largely blamed UNITA for the breakdown of a 1994 peace accord with the Angolan government, which was designed to end more than two decades of civil war. The peace pact dissolved in December and an all-out war resumed

The government is funded mainly by oil revenues, while UNITA occupies most of the diamond mining districts, which have funded its fighters during the past 25 years.

To distinguish among the diamonds, the Angolan government months ago was to have issued certificates of origin from the gems it exported, and Mr Fowler said Luanda was working to improve it certification programme.

The New York-based Human Rights Watch last month alleged that the government had been reluctant to issue certificates because some of its officials were trading with UNITA.

Mr Fowler estimated that diamonds had earned Unita between $3-billion and $4-billion in the past eight years, but that annual sales had now fallen to between $150-million and $200-million from between $300-million and $400-million four years ago.

De Beers said on Wednesday it would stop buying Angolan diamonds, except those governed by a contract with the Angolan government.

De Beers announced its decision after an extensive campaign by Mr Fowler, and shortly after a new effort by European activists to stop diamond firms from buying smuggled gems that help fund rebel armies.

Mr Fowler set up panels to study ways of clamping down on sanctions-busting, and last summer met De Beers managers, as well as diamond industry officials in Belgium, Britain and Ukraine – Reuters

MAIL & GUARDIAN
October 15 to 21 1999

Another new deadline for Nabera

M+G 15-21/10/99 (216) : (260)

The Alexkor diamond mine controversy is far from over, write **Donna Block** *and* **Mungo Soggot**

The government has jumped the gun in its attempt to clear Bridget Radebe s Nabera consortium of its embarrassing breach of contract There are still key legal problems preventing Nabera from being truly in the clear

The Department of Public Enterprises said last Thursday Nabera had now complied with its contractual obligation to raise R120 million for state diamond mine Alexkor However the director general of the Department of Public Enterprises Sivi Gounden this week confirmed Nabera s compliance still has to be cleared by the Department of Finance — problematic because Nabera s bank, which is providing the R120-million is still insisting on a guarantee.

Gounden says he has taken legal advice and consulted other government departments on the decision to give Nabera yet more time

The controversy began eight months ago when Nabera was awarded the management contract for Alexkor a precursor to the mine s full privatisation

Questions were asked because Bridget Rabebe is the wife of Jeff Radebe, then minister of public works and now as minister of public enterprises the man in charge of privatisation

At the heart of the issue is the fact that Nabera was required to come up with R120-million by June to fund the mine's development It failed to do so Minister Radebe then extended the deadline three times, the latest being last Thursday

While continually failing to honour its contractual obligations Nabera s team installed itself at Alexkor earning a fee of R100 000 a month and entitled to claim up to R500 000 for monthly expenses

Public enterprises officials say the contract signed under the previous minister Stella Sigcau was flawed and left the government little room to navigate out of the controversy

The department s statement last Thursday — just hours before the expiry of Nabera s latest deadline — purported to close the door on the controversy 'We have received confirmation from Nabera s financiers that they have raised the R120-million loan facility in fulfillment of the condition precedent in the management agreement We are currently in the process of working out the details of the loan agreement We are also confident that this is a positive signal that the exploration strategy so vital for the mine can proceed

In fact Nabera s bank confirmed this week that although it had granted a facility letter for the company the money would not be accessible to Nabera or Alexkor until a loan agreement was thrashed out The Department of Public Enterprises conceded these negotiations will involve clearing key policy issues with the Department of Finance.

The problem now is that Nabera s bank is drafting a loan agreement that will impose financial obligations on the state balance sheet — the bank is still asking the government to guarantee its two year loan to Nabera

The sticking point for Nabera so far has been its bank BoE Merchant Bank has insisted the government provide an express guarantee to repay the R120-million at the end of Nabera s two-year management term

Although the management contract allowed Nabera to get its money back from Alexkor — or the government in the event that Alexkor could not repay — BoE has wanted a separate explicit guarantee The government has declined on the grounds that such a guarantee would show up on its books as a liability

It was therefore surprising that BoE last week had appeared to supply Nabera with the necessary funding without a guarantee from the government This is not the case – BoE now wants its guarantee in the loan agreement, to which it wants to add its signature.

Anton Taljaard, head of specialised finance at BoE Merchant Bank, said. "BoE is seeking to secure its loan to Nabera by being party to the loan agreement."

Gounden says his legal advisers believed BoE s signature was not a big enough change to justify the government refusing it.

But Gounden accepted the loan agreement would have to be cleared by the Department of Finance. The finance department has a conservative policy on government guarantees.

All of which means the debate on whether Nabera has complied has come back to square one — the government still has to decide on the guarantee, which it has so far refused.

The *Mail & Guardian* has established that Sigcau s department did not clear the management contract with the finance department — despite the fact it included the government s guarantee to Nabera. This was the root of the problem — the mention of the guarantee to Nabera has made it reasonable for BoE to request the guarantee be extended to itself.

If the guarantee is extended to BoE Nabera will get to run Alexkor without investing any of its own money — without proving its financial credibility Gounden said the department in future would seek to avoid giving any contract to a company that did not have to prove its financial capability" up front Nabera s loan agreement now has to be finalised by November 7

Madam chair: Nabera consortium is chaired by Bridget Radebe, Minister of Public Enterprises Jeff Radebe's wife PHOTO: SUNDAY TIMES

Secure, efficient sorting plant for diamond mines

BD 2/11/99 (216) (12)

Botswana and SA lead the way in fighting the trade in stolen diamonds

GABORONE — The commissioning of an automated process to recover and sort diamonds from Botswana's mines is expected to be completed by the end of the first quarter of next year

The Aquarium Project — so named after the acronyms of the two processes Carp and Fish — operates without any human intervention

The Carp, or "completely automated recovery plant", is an 86m-tall windowless, rectangular unit where diamonds are separated from the rough The Fish, or "fully integrated sorting house", is a smaller building where diamonds are sorted and sealed in containers

"It is highly secure and more efficient," said project manager Brian Rausch of the $77m scheme

Inside the Aquarium, no one handles or even sees a diamond throughout the process Diamondiferous material is delivered from the crushers to the Carp buildings The two Carp buildings are located respectively at Orapa — which also handles concentrate from nearby Letlhakane — and Jwaneng The three Debswana-owned and operated mines are a joint venture between De Beers and the Botswana government

The material descends by a mix of gravity and "soft" transportation — including zigzag chutes — through 15 activity floors where X-ray technology separates the rough

From floor to floor the concentrate is transported in sealed containers, loaded, sealed, transported on overhead rails and unloaded, automatically

The Orapa and Letlhakane concentrate is then transported to Jwaneng where, in Fish more X-ray technology sorts the concentrate to 100% and seals it in containers for transportation to the valuers in Gaborone

The machine's security measures are stringent "Putting a foot wrong will ring all the bells," said Rausch, who added "To curtail IDB (illicit diamond-buying, or trade in stolen rough diamonds) is one reason for Aquarium "

Botswana's economy is based on its diamond industry, with production in 1998 at 19,8-million carats from 21-million tonnes of ore treated

In 1997 Botswana supplied 66% by carat weight of all diamonds sold by the Central Selling Organisation (CSO) By value it usually contributes 33% of CSO sales These figures will increase substantially when the expansion at Orapa comes on stream

Expansion at Orapa will double production at that mine to 12,6-million carats a year by January 1, adding 33% to Botswana's total production Orapa will then be the largest producer by carat weight in the world

Jwaneng is already the richest diamond mine in the world

In 1998 Botswana's diamond production was worth $1 922m at an average price per carat of $97 Botswana's diamonds accounted for 29,3% of the world's total production — Sapa

Last minute agreement among stakeholders secures Nabera's diamond mine management concession

Alexkor pulls back from brink

(216) ARG 8/11/99

STEWART BAILEY

Johannesburg – The loan agreement between Alexkor, the state-owned diamond mine, the government, Nabera and BoE was expected to have been finalised late last night, allowing for the release of R120 million in exploration funding to the mine, said Zaid Nordien, a spokesman for the department of public enterprises.

Although Jeff Radebe, the minister of public enterprises, has not yet signed the documents, Nordien said that "consensus between the parties" had been reached.

The resolution of the nine month impasse between government and Nabera over the question of unconditional finance facilities was ended by initiatives tabled by the parties at a meeting held on Friday.

Nordien could not be drawn on the nature of the "solutions". "The details of the agreement will be announced early (this) week. Suffice to say the deal has been successfully concluded and Nabera's management contract at Alexkor is secure," he said.

The finalisation of the agreement allowed Nabera, Alexkor's management contractor, to proceed with plans to identify new resources to extend the waning life of the mine and secure employment for much of its 1000-strong workforce. It emerged last month that the mine's resources would be depleted by December if new resources were not converted to reserve status.

BoE, Nabera's financier, had insisted that the government enter into a loan agreement as a debtor of last resort, thereby ensuring that the R120 million would be repaid to Nabera at the termination of its contract.

The department of finance had objected to the provision of guarantees to Nabera, a private company, because this would set an unfortunate precedent.

Anton Taljaard, BoE's chief of corporate finance, was "extremely pleased that the matter had been concluded favourably".

"We look forward to transferring the funds as soon as possible so Nabera can get on with the business of mining," he said.

Adonis Poroulis, a director at Nabera, could not be reached for comment on the matter.

The consensus eliminated fears that the loan agreement would not be signed by yesterday's deadline. This would have terminated Nabera's contract with immediate effect.

with the FINANCIAL TIMES worldwide

Diamond exports halted

(216) BD 11/11/99

Valuator stops sales abroad again, placing stiff demands on industry

Ilja Graulich

THE government diamond valuator has halted diamond exports for a second time this year, with the stipulation that the bar will not be relaxed unless stiff demands are met.

One of the most serious requirements recently added to an existing set of demands is that De Beers must pay the costs of the valuator, which is headed by Claude Nobels

The row dates back to April when the then newly appointed valuator, Nobels company, DVIC Valuations disputed the valuation process that had been used for decades and refused to sign off diamond parcels for export

BoE diamond analyst Hilton Ashton says in an industry report that the valuator "is holding De Beers to ransom on three counts"

The first is that De Beers must pay the valuator's costs, which would normally be the responsibility of the SA Diamond Board

The board, which appoints the valuator by tender process under the Diamond Act, falls under the minerals and energy affairs department Government obtains revenue through duties levied on the diamonds destined for export according to a value agreed on by the producer and the valuator

Ashton says that it is "incredulous that a private company can be called to pay costs of an organisation appointed, indirectly, by government" He called for a full investigation of the diamond industry and the board in particular

The valuator's demand is in contrast to statements by Nobels who said recently that he was not interested in money and could not be bought The money questions came up after it was confirmed that Nobels was the highest paid valuator in the history of the post.

Nobels said that De Beers could not go on challenging the state and "must become a good corporate citizen"

The valuator is also demanding that SA diamonds held in London be returned and that De Beers become a joint venture partner in developing a black empowerment cutting industry

Ashton says that the SA Diamond Board, the body responsible for the valuator's fee, is almost bankrupt, following extensive refurbishment of board offices and alleged mismanagement of board affairs.

The report says that blame should be laid at the door of Phakamile Ngaki, deputy CEO of the board, who has been suspended in connection with overexpenditure issues

"The board's operation has become something of a circus," says Ashton.

De Beers spokesman Tracey Peterson has confirmed that there has been a delay with the export of the series "97", but that De Beers is in the final stages of concluding export arrangements.

Ashton says De Beers' results for the year will be negatively affected by the dispute.

Diamond exporters may have to resume paying tax on rough diamond exports

State to review gem export law

(216) ARG 13/11/99

Jonathan Rosenthal
Commodities Editor

Johannesburg – South Africa's diamond exporters may have to resume paying tax on rough diamond exports as early as next year if an investigation being conducted by the department of minerals and energy finds that tax exemptions have failed to stimulate the local diamond industry

Sandile Nogxina, the director general of the department, said yesterday that the department hoped to present the cabinet with revised legislation governing the diamond industry next year

South African mines export between $900 million and $1 billion worth of rough diamonds a year

Under the present law, exporters must pay a 15 percent tax on rough diamond exports unless they have been granted an exemption To get the exemption, the exporter has to prove that the rough diamonds were first offered to the local cutting and toolmaking industry Only those diamonds that are not bought by the local beneficiation industries can be exported tax-free

In practice, exporters such as De Beers, which controls about 70 percent of the world's rough diamond trade, export tax-free under reciprocal agreements to import higher-grade diamonds that can be profitable cut by the local industry Earlier this year Penuell Maduna, the then minerals and energy minister, said he was launching an investigation into allegations of widespread abuse of the exceptions

Nogxina said that an investigation into each of the agreements would be a waste of time and that the government had decided to focus on the broader question of whether these agreements did in fact support the local industry

"We have to look at whether (the exceptions) meets the requirements of government, whether it really serves the purpose for which it was designed A change in the law may do away with tax exemptions," he said

But he said it was still too early to predict what the outcome of the investigation would be

Tom Tweedy, a spokesman for De Beers, said the review could result in a number of outcomes including doing away with the export tax itself

"The export tax is a bit of an anomaly internationally," he said

He said imposing the tax would provide a disincentive to exports and could harm the local industry. He said De Beers and the Central Selling Organisation were taxed on diamond sales already

DIAMONDS *1994 shipment to London 'cannot be accounted for'*

De Beers accused of irregularities over $3,5bn stockpile

ET (MR) 15/11/99 (21b)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – A stockpile of diamonds, worth about $3,5 billion, that De Beers moved from South Africa to London just before the first democratic election had not been properly valued or audited and could not be accounted for, the government diamond valuator and Victor Sibiya, the head of the diamond board, said at the weekend

De Beers, however, said yesterday that all diamond exports had been signed off by the government diamond valuator, who had full access to the stockpile

"They signed it off, there are records of this, so I don't understand what the issue is," said Tracey Peterson, a De Beers spokesman

The stockpile was exported with the approval of the government on the condition that it remained under the supervision of the government valuator This was because the diamonds were deemed to still be in South Africa for tax and other purposes

The diamonds are supposed to be kept in sealed boxes and only opened in the presence of the government diamond valuator When the diamonds are sold, De Beers has to account for the income and pay tax in South Africa on the earnings

But an investigation earlier this year by London-based auditors for the diamond board found that the correct process had not been followed

The investigators found that De Beers could access the stockpile at will and that any changes to the stock's records were unlikely to be detected

It also found that the values of large diamonds provided by De Beers did not reflect the real value of those in the stockpile

Sibiya said he had not been provided with full records of the extractions from the stockpile, nor an accurate figure of how many diamonds were left

"When I first went over there (London) the valuations of it were swinging wildly from one figure to another In the end they (De Beers) told us it was about $750 million," he said

Claude Nobels, the government diamond valuator, said De Beers figures indicated that about $3,5 billion worth of diamonds had been taken out of the country, of which about $800 million were still in the stockpile

Sibiya said the previous government diamond valuator, a company called Proval, did not appear to have acted with sufficient independence or due care in its supervision of the stockpile Proval's contract with the diamond board contained clauses stating that De Beers had the right to veto any staff appointments made by Proval

Sibiya also said De Beers had offered to lend the Diamond Board money to ease its cash flow crisis but "there were numerous conditions attached to the loan" He said the board had rejected the loan and had informed the government

(216) FM 19/11/99

PRICING ARGUMENT COULD PUT EXPORT TARGET OUT OF REACH

Dispute no good for industry; Minister's action not before time

The disagreements between De Beers and the government-appointed diamond valuator Belgian national Claude Nobels are taking on a certain permanence The latest row — this time over a relatively small parcel of diamonds — has been resolved but only after the intervention of the Minister

A high powered De Beers delegation led by MD Gary Ralfe met Minerals & Energy Minister Phumzile Mlambo-Ngcuka this week A statement clarifying the situation was expected from her as the *FM* went to press

An earlier impasse involved four parcels of exports stretching back to February and was finally resolved only in mid-August De Beers was forced at the time to accept a 4% increase in the valuation of the diamonds exported (see *Companies & Markets* September 10 1999)

The diamond valuator is appointed in terms of the Diamond Act to grade and value the diamonds exported by De Beers and other producers Inevitably this grading follows the standard selling prices set by De Beers and reflected in its price book Tax and royalties are levied and paid by producers on those values when the diamonds are sold

The nature of the diamond industry sets it apart from other commodities in an important and fundamental sense — there is no single bourse on which diamonds are traded and from which prices can be derived independently It follows that De Beers, easily the most dominant producer and supplier of rough stones to the international diamond-cutting industry sets the price patterns to be applied from time to time The sale of rough stones is also confounded by the fact that so many types and qualities of diamonds exist They cannot easily be quantified like other goods such as crude oil

On this basis it is perfectly possible as Nobels apparently claims to secure better prices in specific categories of stones over certain periods In the same way it is possible — as occurred two years ago when Russia was intent on throwing large parts of its stockpile on to world markets — that De Beers own standard price book would be more expensive than prices prevailing in certain categories De Beers argument is that it is unreasonable to expect to use its standard price list only when it is most convenient

In any event the effect of the latest stand-off is that De Beers says it faces a three week time lag in ~~deliveries of~~ its SA-sourced stones to world markets That may not sound much but the lag will persist and means unless extraordinary efforts are made that the company will be unable to include its full quota of SA-sourced stones in all its 10 exports this year

The bad blood that clearly exists between De Beers on one hand and the valuator on the other raises yet again the manner of Nobels selection by the Diamond Board an industry and government body whose tasks are to promote the well-being and regulation of the industry

When the matter of the appointment of a new valuator was fixed on the Diamond Board's agenda last year the competition for it was the most intense ever The previous valuator Proval staffed by many former De Beers employees, fell by the wayside

A competing bid from Richard Wake-Walker and Charles Wyndham, both former De Beers employees — Wake-Walker in London and Moscow and Wyndham in Johannesburg — was also unsuccessful Wyndham was especially incensed at his treatment by the Diamond Board, which he described as manifestly unfair Wake-Walker and Wyndham are already the Canadian government valuators.

The diamond industry is such that it's unlikely any government valuator could claim never to have been involved in some manner with De Beers. Nobels, for example, was for a time an employee of Hennigs, a prominent London diamantaire with offices in Antwerp and close links with De Beers

It is understood that Nobels staff operate out of Kimberley and Antwerp Nobels himself is believed to travel widely Among his most recent claims is that some work he has executed recently falls outside the scope of his contract with the Diamond Board, and a curious suggestion has been made that De Beers should make good the shortfall

However, the Diamond Board levies a small charge of 0,155% on the selling value of all diamonds exported from SA This is expected to cover its costs and those of its valuator Quite what De Beers' role in this is mystifying — though it's worth pointing out that any payment by De Beers for services rendered by the valuator unless agreed to previously by both De Beers and the board, could be considered highly improper

The disagreements and unhappiness between the two sides now do nothing for the cause of the industry Intervention by the Minister to resolve matters is long overdue

David Gleason

Calm in the storm *De Beers valuators in Kimberley*

De Beers flummoxed by latest impasse

BD 22/11/99 (211)

Ilja Graulich

DIAMOND group De Beers has hit back at the government diamond valuator and the SA Diamond Board after the problems it has encountered exporting the precious gems

De Beers MD Gary Ralfe has also welcomed the intervention by the minerals and energy department in the dispute, saying the group has had positive meetings with the department and was fully supportive of steps taken to end the impasse

The latest spat between the valuator, the SA Diamond Board and De Beers follows disclosures that De Beers had again not exported a consignment of diamonds — the Series "97" — the second time exports were interrupted this year

The valuator has since cleared Series 97 for export

Ralfe says it has always behaved lawfully, and its SA diamond stockpile is "monitored meticulously in co-operation with the valuator"

De Beers has been accused of moving the diamond stockpile to London to avoid paying taxes and levies in SA.

However, Ralfe said on Friday that De Beers reached an agreement with the SA Diamond Board in 1993 to move the stockpile and the board had since ratified it each year

Furthermore, earlier this year the valuator appointed its own external auditors to conduct an audit of the London stockpile, and the Diamond Board had raised no issues of concern with De Beers

De Beers said that in the "spirit of conciliation, (it) has agreed to hold any new stock arising in the future in Kimberley, only to be exported to join the London selling mixtures as and when required."

Analysts have commented that while the first dispute between the valuator and De Beers was about the pricing of diamonds and had some legitimacy, it seemed like the current problem stemmed from the valuator's personal agenda against De Beers

Ralfe confirmed rumours that the valuator had asked De Beers for more money to conduct his job Although the valuator did not approach De Beers directly, this request was made through the SA Diamond Board Ralfe refused to say how much money was asked for

Ralfe said he did not see who was benefiting from the dispute

He said that De Beers had always been supportive of the SA diamond industry

The diamond industry was the one that provided the most beneficiation out of any of the commodities mined in SA.

Ralfe also welcomed a review of the Diamond Act, saying that De Beers would be willing to contribute to a debate.

In a separate announcement, the De Beers board on Friday expressed support for the construction of a new diamond recovery plant in Kimberley that would cost R600m.

Future production to be kept in Kimberley

De Beers to bring back diamonds

eT(BR) 22/11/99 (216)

JONATHAN ROSENTHAL
COMMODITIES EDITOR

Johannesburg – De Beers announced on Friday it would repatriate $100 million of the $700 million worth of South African diamonds currently held in a stockpile in London.

The company said that while most of that store of diamonds would remain in the British capital, all future South African production would be stockpiled in Kimberly and only be exported as needed for sales.

De Beers also strongly denied allegations published last week that there were accounting irregularities in its London based stockpile of South African diamonds.

Gary Ralfe, De Beers' MD.
PHOTO JOHN WOODCOCK

"De Beers rejects the aspersions cast over the conduct of its business both in South Africa and abroad. The company has always behave lawfully and its South African stockpile is monitored meticulously in co-operation with the Government Diamond Valuator appointed by the South African Diamond Board," Gary Ralfe, the managing director of De Beers told journalists.

The De Beers statement came in response to allegations last week by Victor Sibiya, the chief executive of the Diamond Board, that he had not been provided with full records of the extractions from the stockpile or an accurate figure of how many diamonds were left.

The South African stockpile was moved to London in 1993 in a move widely seen at the time as an attempt to safeguard the diamonds against nationalisation or seizure by the incoming ANC government.

Ralfe said the move was part of a greater agreement between De Beers and the diamond board to give the South African diamond-cutting industry increased access to rough diamonds, which could be beneficiated in South Africa. The valuator retains oversight of the diamonds as tax becomes due only when they are sold.

Ralfe said the value of the diamonds moved to London was about $147 million, far less than the $3,5 billion that the valuator claimed last week.

Ralfe said that while the valuator had appointed external auditors to audit the stockpile no issues of concern were raised with De Beers or the Diamond Board.

It is however understood that a report by the London-based auditor states that De Beers could access the stockpile at will and that changes to the stocks records and substitutions to the stockpile were unlikely to be detected.

Twist in state diamond mine saga

MtG 26/11-2/12/99 (216)

De Beers could be a winner in the corporate drama surrounding state diamond mine Alexkor's management contract

Donna Block *and* **Mungo Soggot** *report*

Diamond giant De Beers could be given an opportunity to get involved in the management of the beleaguered state diamond mine Alexkor after a dramatic development in the saga surrounding the mine's management contract

It emerged this week that Nabera the consortium that has the management contract is poised to tie up with New Diamond Corporation a South African company with links to De Beers

New Diamond's chief executive Tiego Moseneke a leading Johannesburg attorney and corporate financier sits on the board of De Beers's London based marketing arm the Central Selling Organisation

New Diamond said this week it planned to bring on board at Alexkor major diamond players, which "might include De Beers Two sources close to the deal said that in terms of the agreement drawn up this week New Diamond was on track to get the chairmanship operational control and 'outright equity control over Nabera

Shortly after it was formed last year New Diamond became De Beers's empowerment partner in a Northern Province diamond mine New Diamond then teamed up with De Beers to bid against Nabera when the management contract for Alexkor was put out to tender last year

Nabera which pipped two other shortlisted bidders including De Beers and New Diamond, in March this year, approached New Diamond this month to discuss a partnership after Nabera's empowerment partner Mmkau Mining, pulled out of the Nabera consortium Mmkau is chaired by Bridgette Radebe wife of the Minister of Public Enterprises Jeff Radebe

New Diamond will exercise considerably more control in Nabera than its empowerment predecessor becoming the lead member of the consortium A New Diamond representative confirmed the deal with Nabera was close to being tied up He dismissed the notion that De Beers would automatically get key mining contracts, saying New Diamond would select "external" management expertise according to "merit and track records

New Diamond said it will ultimately get 51% of the Nabera consortium, whose lead member has until now been Petra Mining a London based company with several interests in Southern Africa

Petra's and Nabera's chair, Adonis Pouroulis, confirmed that talks with New Diamond were at an advanced stage He said Nabera was not averse to working with De Beers, having already discussed the possibility of De Beers carrying out marine mining at Alexkor Nabera sources said if De Beers was selected it could either be brought on as a joint venture partner or as a subcontractor

Take the gap. Nabera approached New Diamond about a partnership after its empowerment partner, Mmkau Mining, pulled out of Nabera Mmkau is chaired by Bridgette Radebe (left), wife of Minister of Public Enterprises Jeff Radebe PHOTOGRAPH SUNDAY TIMES

A De Beers representative confirmed that New Diamond was 'at the head of the queue", but said discussion of any joint venture or partnership with New Diamond at Alexkor would be premature until New Diamond's deal was sealed

A leading Johannesburg diamond analyst welcomed New Diamond's entry, which should end the uncertainty surrounding Alexkor's fate

The Alexkor management contract has been fraught with controversy from the start. In terms of its original contract with the government Nabera was supposed to raise R120-million for Alexkor's development by June In exchange, Nabera was due to get a stake in Alexkor when it was eventually privatised in two years' time

Nabera missed several deadlines exposing Jeff Radebe to the charge that he was being lenient with his wife's company Earlier this month the government abandoned the idea of Nabera raising the money, after refusing to meet the demand by Nabera's bank that the government underwrite the loan

Instead the government, via Alexkor, raised the money itself from Nabera's bank, and announced Nabera would not get any equity stake in the mine but would just manage it for two years for a R100 000 monthly fee It was a substantial comedown for Nabera

The endless delays have been embarrassing for the government not only because of the marriage between the former Nabera chair and the minister of public enterprises but also because the delays have jeopardised the mine's survival it desperately needs the R120-million to stay afloat

The inclusion of New Diamond in the Alexkor team and the likelihood that major industry players will come on board represents an ideal solution for the government Officials have insisted that Nabera was selected primarily because it had the best strategy to save Alexkor downplaying the fact that there was a political downside to choosing De Beers a company with considerably more management expertise

The government has been crossing swords with De Beers over its valuation of South Africa's diamonds, amid wider allegations that De Beers has benefited from South Africa's diamonds at the expense of the country

Bridgette Radebe said she quit Nabera to pursue other mining interests but a Nabera representative this week blamed her departure on press coverage of the conflict of interest arising from her marriage

The Department of Public Enterprises has stated repeatedly that Nabera has brought about a considerable improvement in the performance of Alexkor which was been crippled by notoriously weak and corrupt management

(216) FM 26/11/99

DE BEERS/DIAMOND VALUATOR

AN INEXPLICABLE ANIMOSITY THAT IS HARMING THE COUNTRY

De Beers statements leave questions blowing in the wind

De Beers MD Gary Ralfe underlined the size of the rift between his company, the government diamond valuator and Diamond Board CEO Victor Sibiya last week when De Beers finally dropped its "no comment approach to the issue

Ralfe confirms De Beers has brought charges of lack of proper corporate governance against Sibiya and that the Diamond Board has approached De Beers for extra payments for the government valuator s services

He rejects claims by Sibiya that De Beers has deliberately stalled on exporting diamonds and there were irregularities over the management of the stockpile of SA diamonds in London Ralfe points out one of the valuator s functions is to monitor that stockpile

He criticises the government valuator — DVIC Valuations headed by Belgian Claude Nobels — for taking too long over the valuation process He rejects Sibiya s opinion that the new valuator is taking longer because it is doing the job properly unlike the previous government valuator Proval which Sibiya says merely rubber stamped De Beers' own valuations

"The job can be done in depth in a very short time if the staff are there in the required numbers " says Ralfe The GDV has not kept staff full time at Harry Oppenheimer House (the De Beers sorting centre in Kimberley) when they should have been there

He rejects claims by Nobels that De Beers was not providing him with sufficient computerised and hardcopy information to be able to do the job

"We have given him all he required in terms of IT facilities and hardcopy information We are in the process of providing him with an AS400 (IBM mini computer) and he is not being charged for any of these facilities

We will do everything reasonable to co operate with the government valuator to ensure that we can export our diamonds Ralfe says

He acknowledges no-one is benefiting from this impasse neither De Beers the Diamond Board the Receiver of Revenue nor SA as a whole But he will not spell out what De Beers believes to be the nub of the dispute serious as it is

My own view is the matter is best resolved between the parties involved rather than through the media he says "I hope that with the intervention of the Department of Mineral & Energy Affairs matters will improve soon

Ralfe declines to comment when asked whether he believes the valuator and/or Diamond Board staff were deliberately acting against De Beers interests for personal and/or political agendas as some industry players have speculated

What makes the issue all the more confusing is that De Beers took part in the vetting process that selected Nobels as the new government valuator and approved his selection

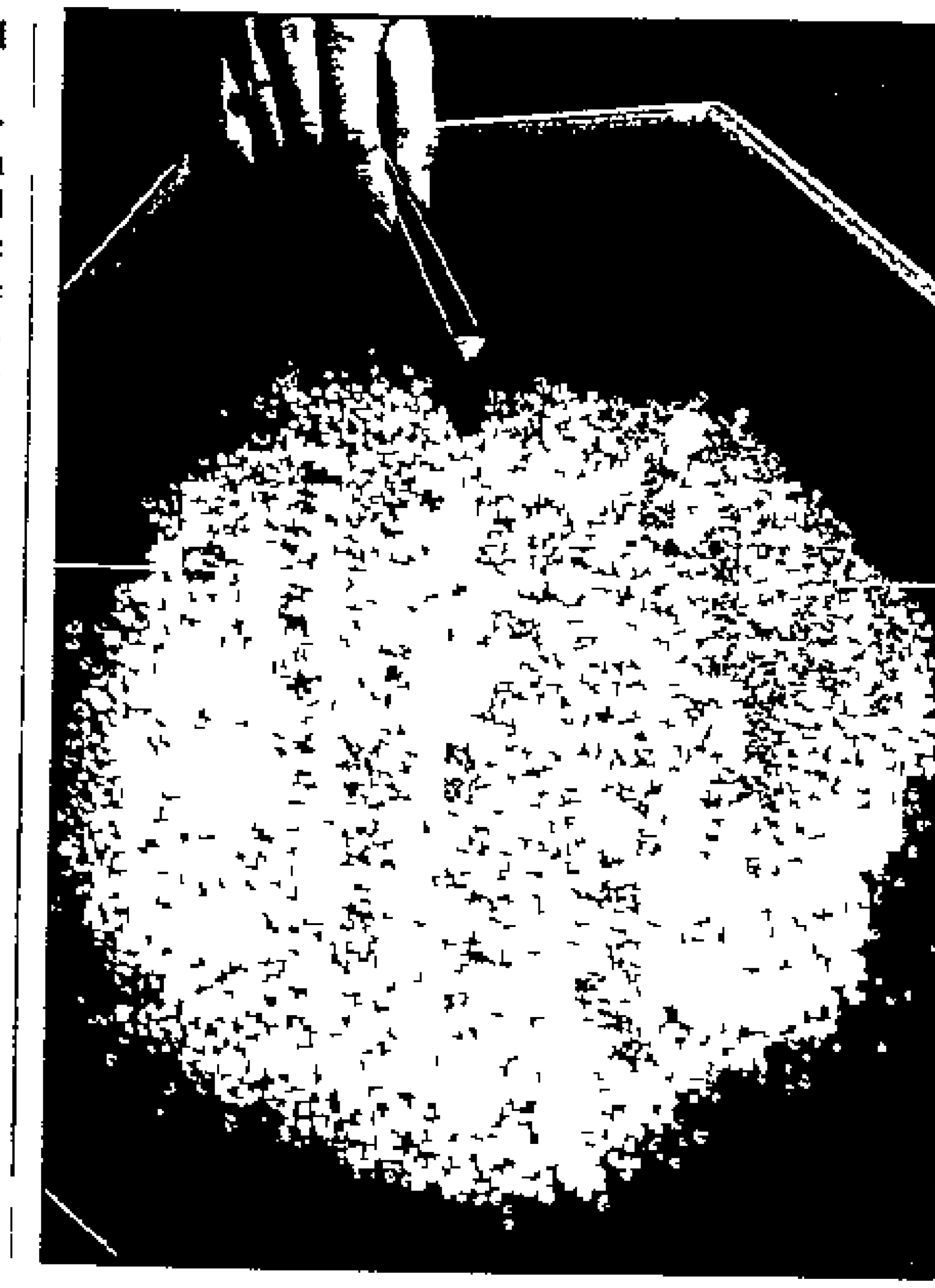
De Beers executive Gareth Penny confirms statements made by Sibiya that in November last year he told the Diamond Board that De Beers was happy with the appointment of Nobels Penny says the problems flared up subsequently when Nobels revealed his approach to the valuation work

Neither Ralfe nor Sibiya will confirm the contract amount being paid to Nobels nor the extra amounts requested from De Beers Market speculation is Nobels contract is for R10m and it succeeded despite lower bids from competitors such as Diamond Counsellor International s R7m

The value of Nobels contract is being boosted by free facilities Nobels has subsequently negotiated from De Beers and the Diamond Board

"I cannot tell you the contract price but it was nowhere near R10m and DVIC were by no means the highest-cost bidders," says Sibiya

Complaints have been levelled against me on grounds of corporate governance I have replied to the Minister refuting every accusation and De Beers has not been able to substantiate the allegations



Sibiya says the requests for extra payments were for work by the government valuator over and above the tasks specified in the valuation contract Ralfe says De Beers has asked the Diamond Board for further justification of these extra amounts

The ball is now firmly in the court of the Minister of Mineral & Energy Affairs, Phumzile Mlambo-Ngcuka

She met both of the parties last week and remarked that the way in which De Beers and the Diamond Board have been handling the issues is "damaging to the industry"

The outcome could be a review of the Diamond Act and the greater involvement of the Ministry of Finance and the SA Revenue Services, rather than the Diamond Board in the financial control of diamond exports

Brendan Ryan

Union lodges complaint against De Beers

(216) BD 3/12/99

Nonsight holders claim they cannot make a profit because of 1%-2% premiums

Reneé Grawitzky

THE SA Diamond Workers' Union, and a group of small diamond cutting businesses, have lodged a complaint against De Beers with the Competition Commission, claiming that the group's selling practices benefit only a part of the industry.

The union is objecting to De Beers's practice of selling rough diamonds directly to a limited number of sight holders — who are the preferred buyers of the diamonds — while nonsight holders have to pay a premium.

The union wants De Beers to auction its goods through an open tender, instead of through its subsidiary the Diamond Development Corporation.

The union says an exemption granted to De Beers in terms of the Diamond Act, allowing the company to export its full diamond production without offering the goods for sale in SA first, should be reviewed. However, the exemption allows De Beers to create a mixed parcel of diamonds of varying quality to be imported back into SA.

The union claims that nonsight holders were placed at a disadvantage because they had to buy diamonds at a higher price than sight holders who are supplied directly by De Beers.

Nonsight holders can either import their own diamonds or buy from the Diamond Development Corporation, where they have to pay a premium of 1%-2% of the price. The union says this makes it impossible for nonsight holders to make a profit.

A diamond analyst said nonsight holders in other countries, such as India and Israel, were able to make a profit. He questioned why SA was different.

He said sight holders had to be financially secure and take the good with the bad, at times buying parcels which included unprofitable diamonds. They could not "cherry pick", he said.

It has also been argued that De Beers was not facilitating the development of a potentially lucrative local diamond cutting industry which could employ up to 15 000 polishers instead of the current 1 000 employed.

A diamond analyst said that if government wanted the local industry to thrive — in line with its ongoing commitment to job creation — then it should consider creating incentives similar to international practices.

De Beers spokesman Mark Irvine said yesterday the company could not comment until notification from the complainant was received, but promised its "full co-operation".

New force in SA gem sector

BD 14/12/99 (216)

R630m merger will see Tokyo Sexwale occupy Trans Hex deputy's chair

Ilja Graulich

SA's diamond industry is set to have a new force to reckon with following the merger of the Rembrandt-controlled Trans Hex Group and Tokyo Sexwale's Gem Diamond Mining Corporation.

The R630m deal will see Trans Hex issue new shares for the entire share capital of Gem, making it a wholly owned subsidiary of the group

The deal is valued on discounted cash flow ratios rather than market capitalisation ratios

Gem chairman Tokyo Sexwale will join Trans Hex as deputy chairman

One analyst said the valuation on discounted cash flow was due to both shares being highly illiquid and the different histories the parties brought to the deal He said Trans Hex had a 30-year history and had proved itself in the diamond industry while Gem was a relative newcomer

When finalised Trans Hex will be controlled by two major shareholders, the Rembrandt Group — whose shareholding will be diluted from the current 50% — and Mvelaphanda Diamonds, the parent of Gem.

There will be further benefits when the current transaction between Trans Hex and Benguela Concessions is finalised which could see the enlarged company sport a market capitalisation of R1bn according to some analysts

The deal between Gem and Trans Hex was structured with the assistance of BoE Merchant Bank, which was a participant in a previous deal with Sexwale that saw Mvelaphanda take a 34% stake in alluvial diamond mining company Gem for R55m

BoE Merchant Bank's Dave Vetter said the empowerment partner in this case brought assets to the deal

Under many previous empowerment deals the partner was being leveraged into participation through short-term preference share arrangements

Mvelephanda MD Mark Willcox said it was always Sexwale's intention to bring assets to the deal, rather than "be party to sham empowerment whereby high-profile figures parachute onto existing structures and are given a stake without contributing anything"

Mvelaphanda holds concessions on the Orange River and has rights in the Central African Republic, the Democratic Republic of Congo and Angola.

Trans Hex already has considerable experience in mining areas along the Orange River and, coupled with the Gem assets, will be able to reduce overheads and accelerate exploration

The merger also accelerates the consolidation of the small and medium players in the diamond market

Sharespot: Page 11

Plans to 'milk' diamond industry slated

(216) CT (BR) 22/12/99

STEWART BAILEY

Johannesburg – Analysts yesterday lambasted plans by the government to overhaul the tax system in the diamond industry, saying that it was merely an attempt to "milk" more revenue from large diamond producers which were already paying their fair share of taxes.

Hennie Vermeulen, a diamond analyst at Investec, said if the government enforced an export tax on diamonds the effect on De Beers alone would be enormous. De Beers currently exports about $900 million worth of diamonds a year and, if the government slaps a 10 percent charge on exports, it could wipe about R550 million off its bottom line," he said. He added that South Africa was the only country to have an export duty system.

This emerged after the report from a commission of inquiry into the diamond industry quoted Martin Grote, the chief director of tax policy in the department of finance, as saying: "The present diamond mining tax regime suggests a suboptimal compensation for the right to mine the fi[nite], non renewable resources of this country." Grote proposed that the government impose a royalty charge, or severance tax, on the diamond industry to make a clear distinction between min[ing] taxation on the one hand and mineral pricing and compensation for the right to mine on the other. De Beers is estimated to be paying R1 billion in taxes each ye[ar] for its local operations.

Hilton Ashton, a diamond analyst at BoE Securities, said diamond companies, De Beers in particular, were already paying income tax and had not made any attempt to dodge tax on any front.

"It looks as though the state wants to enforce some kind of an export duty on diamonds, which is unacceptable. If this is the case, then why don't they do the same for the export of other raw materials like coal and gold?" he said.

"Diamonds are already subject to a 15 percent export duty which [is] waived if the gems are offered to the local cutting and polishing industry. According to the report, the state had received no export duties for the diamond industry since 1988.

Jan Bredel, the deputy director [ge]neral of mining at the de[part]ment of minerals and energy, said the export duty was aimed at stimulating local cutting and pol[ishing] industry. Ashton countered that the onus to stimulate the sec[tor] did not lie with private companies but with the government.

Another analyst [sa]id that in[ternational] diamond [cutt]ers had investigated the feasibility of setting up shop locally but had es[chewed] the opportunity in favou[r] of India because of better ince[ntives] and less onerous labour law[s].

Andrew Cumine, a De Be[ers] [s]pokesman, said De Beers wou[ld] assist the government wherev[er] possible and added that the r[e]port was "old news" in that it ha[d] been public knowledge since 199[…]

Victor Sibiya, the head of th[e] [di]amond board, confirmed that [the te]am had been put together by th[e] [go]vernment to investigate el[eme]nts of the Diamond Act which [we]re outdated and no longer f[it] the country in many respec[ts].