CHAPTER 7

INDIRECT ECONOMIC IMPACT IN DIAMOND PRODUCING COUNTRIES

What is at stake?

Antwerp is a trade center dependent on the demand for diamonds. The most important diamond producing countries are Russia, Southern African countries, Canada and Australia. On the production side, 130 million of rough diamonds were brought into the value chain in 2013, valued at €10,3 billion.

According to a Bain & Company study commissioned by AWDC, the demand for rough diamonds will increase annually by 5,1% until 2023. This demand will be mostly driven by emerging economies such as India and China, which together will constitute 40% of the demand in 2023. The middle class is quickly growing in these countries, and has more and more of the necessary capital at its disposal to buy diamonds or diamond jewelery. A stable and sustainable supply must be ensured, which will have a positive impact on diamond producing countries.

Unsustainable production can be prevented in a number of ways. From an environmental perspective, the fundamental factor is that a diamond is a finite natural rough resource, which should be handled with care. This means, economically speaking, that in the long term, the search for natural diamonds will be so technically difficult and expensive that it will no longer be profitable.

Governments in diamond-producing countries can also lose out on income from sub-optimal contracts for the exploitation of their natural riches or sell their production for an insufficiently high price on the national or international market. Underlying factors can be market phenomena, such as insufficient demand, or lack of experience and knowledge about diamonds so that the product is not sold in an optimal way.

Other risks in diamond producing countries also exist from a governance perspective. The illegal sale and smuggling of diamonds continue to be a problem. Although there are no official statistics of the size of this trade, we can assume it is significant and that this is a reason for mistrust vis-a-vis the diamond sector. This implies a direct loss for the state treasury of the producing country and the developments they could have generated.

The best way to ensure a responsible supply is to make sure that the rightful owners, the countries where the rough materials are located, can manage the materials in a proper manner and be properly reimbursed the sale of their production. Only then can we speak of a sustainable production and thus also of a sustainable supply. All actors in the diamond value chain must therefore ensure that diamonds have a positive economic impact on diamond producing countries.

What does AWDC do?

DIPLOMACY AND KNOWLEDGE

Governments of diamond-producing countries are very important discussion partners for AWDC. By way of frequent contacts with their diplomatic representatives in Belgium, welcoming Heads of State and policy makers and by regular visits to the diamond-producing countries, AWDC strives to keep its finger on the pulse. In 2013, AWDC took part in six missions, to Angola, India, South Africa, Zimbabwe, Canada and Botswana. This way AWDC constantly advances our leading principle, namely, that the revenue from the sale of diamonds has to flow back to the rightful owners and contribute to economic and social development. AWDC transmits this message in all venues, to allow concerned parties in the diamond trade to contribute to achieving this goal.

During these encounters AWDC always shares its knowledge with governments of diamond-producing countries to support them in the development of a regulatory framework for the exploitation, production and sale of diamonds. Furthermore, AWDC also contributes to the acquisition of knowledge and capacity, and to setting up adequate structures to control the trade in diamonds. In the framework of the Kimberley Process, AWDC produces footprints that statistically describe the nature of the diamond

Beneficiation and vertical integration

The diamond value chain consists of many links, which spread throughout the world. Factors associated with the settings and specialization have led to production, wholesale, finance, and processing and retail being carried out in different diamond centres. Some countries, mainly African diamond-producing countries, have the ambition to integrate a large part of the value chain into the local economy. The countries would not only mine rough diamond and sell it, but they would also be involved in the subsequent steps in the value chain. This is called vertical integration or beneficiation. A successful example of this policy is Botswana, where rough diamonds are not only mined but also traded and polished. This was made possible by a clear and firm policy of the Botswana government, coupled with a clear non-corruption policy. The country is also an absolute leader in the field of good governance on the entire African continent.

Even though AWDC always strives to maximize returns to the governments and people of diamond-producing countries for their rough materials, we believe that the formula of Botswana cannot simply be copied in other countries. To achieve results, the necessary structures must be in place, both on the part of government as of the industry. Developing structures, such as a polishing factory or diamond exchange, and educating people to man these structures often requires a significant investment. Moreover, the particular setting of a country/area cannot always be altered: the presence of a critical mass of buyers and sellers and low wages for polishers cannot always be controlled by government. Finally, one should not lose sight of the fact that reserves of natural rough diamonds are finite. The investment in vertical integration should therefore always be weighed against the expected life of the diamond production site. It is sometimes more advantageous to use diamond revenues to foster a more diversified economic approach, rather than solely focusing on the diamond sector.

AWDC is also an advocate of a policy tailored to each country, which takes into account the existing structures and capacities, and the investments that the country can and is willing to put forth. It may sometimes be more favourable to boost diamond production or to optimize the proceeds from the sale of this production. This can be achieved by improving the sorting and cleaning of the rough diamonds, the assembly of attractive parcels and the efficient marketing of their goods. The immediate increase in revenues can then be used to stimulate the national economy, whether in the diamond sector or elsewhere.

production of a particular country or region. In 2012 a similar footprint analysis was conducted for the diamonds originating from the Central African Republic.

In addition to knowledge, AWDC also makes financial means available to secure sustainable diamond production and to generate a positive economic impact on the diamond producing countries.

In 2013, AWDC co-financed the publication of a study by the Diamond Development Initiative (DDI) by donating an amount of €10,000. The report is entitled *'Côte d'Ivoire Artisanal and Small-Scale Mining – Diamond Mining Assessment'*. It formed an important step in the run-up to the lifting of the UN sanctions against the exports of diamonds from Ivory Coast. The report contains an extensive analysis of the situation and the diamond potential of Ivory Coast. This type of report is an important source of knowledge for the Ivorian government, that, now that the sanctions on rough diamonds have been lifted by the UN, ten years after having been imposed, must lead toward an active diamond policy.

THE ANTWERP DIAMOND TENDER FACILITY

In 2012, the Antwerp Diamond Tender Facility (ATF) was inaugurated in the AWDC building. The ATF is a neutral business space, which is fully equipped with all facilities to sell diamonds by tender. This selling method can be compared with an auction, with the difference that the bids are sealed. AWDC makes the ATF available and acts as facilitator, but has no commercial involvement with the tenders themselves. In 2013, 15 tenders were organized in the ATF.

The tender facility is first and foremost useful for small mining companies, particularly those operating in African countries. Whereas the large mining companies often work with fixed clients and thereby get a guaranteed supply, the small mining companies generally sell their production via one-off transactions. It is important for the seller to get the best price for his or her goods. For sales, which take place at the ATF, all registered diamond traders in Antwerp can register to view the goods and bid on them. It is thanks to the critical mass of potential buyers and the professional context of the ATF that the mining companies can obtain the best price for their goods.

In most cases, part of the profit that the seller has made goes to the government, in the form of a royalty fee. A higher sales price therefore also means a larger income for the government of the diamond-producing country, which can subsequently use these means for local socio-economic purposes.

In addition to the effect on the price, sales via the ATF also contribute to transparency. All goods are extensively documented so that the buyers are perfectly kept up to date with the offer on hand. Potential buyers must be registered as an official diamond trader. An independent and professional service provider registers all bids. At the end a report is made of the sale of the different parcels, and a comparison is made between the result and the reference prices. The service subsequently provides this information to the seller, who can gain insight from this for the future sale of his production.

Doubling the return for Zimbabwe thanks to the ATF

In December 2013 and February 2014, rough diamonds from Zimbabwe were sold for the first time since the European sanctions on diamond producers from Zimbabwe were lifted. The mining companies and the authorised agency Mineral Marketing Corporation of Zimbabwe (MMCZ) opted for the ADTF as a platform for the sale of their production. The first tender already made it clear that the sale in Antwerp offered a much better result for the mining companies, compared to previous sales in the capital city of Harare or at other diamond centres. The parcels of rough diamonds sold during the tender of February 2014 offered an average price per carat of 79.9 US Dollars. This average is 50 to 60 percent higher than the price achieved for the sales in Harare, and is noticeably higher than what Zimbabwe received in other diamond centres. This is extremely important for the economic impact on this diamond-producing country. After all, the Zimbabwean government also collects a fixed percentage of the return via a so-called royalty fee.

In addition to the price effect AWDC has provided useful information to the sellers and authorities in Zimbabwe, as it appeared that extra return could be achieved from the tenders, through improved sorting, categorizing and cleaning of goods, prior to their sale. Moreover, an AWDC analysis showed that offered goods were not a correct representation of the true potential of the mines in Zimbabwe. An offer which would reflect the real potential, the so-called run-of-mine, would achieve an even bigger return.

How do we evaluate our impact?

Our 2013 survey illustrated that 95% of those having used the ATF services were satisfied, with 43% of the respondents not being familiar with the facility. AWDC will endeavor to increase awareness of this platform, especially among the target audience: small mining companies.

The impact of the ATF and of the projects in Ivory Coast will only be visible in the long term. In any case, it is evident that there is a high demand from the diamond-producing countries for support. On the one hand, they seek support in improving the internal structures and procedures to implement a more efficient diamond policy. On the other hand, they seek support in gaining access to the most credible and transparent markets for their products. AWDC will continue to offer its experience and knowledge to meet this demand, and is always willing to work towards a closer collaboration to form effective partnerships, with a positive, sustainable impact.