

Gaberone to become diamond selling centre

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De Beers is in the final stage of preparations to sell its global diamond output from Botswana's capital instead of London, from where the world's largest diamond producer has traditionally done its marketing.



From November more than 100 of the world's most influential diamond traders, or diamantaires, will fly to Gaborone 10 times a year from major diamond centres such as Antwerp, Tel Aviv and New York to buy diamonds from De Beers.

This results from the sweeping changes contained in the 10-year sales contract signed between De Beers and the Botswana government in September 2011, which committed De Beers to relocate its marketing arm, the Diamond Trading Company (DTC), to Gaborone by the end of this year.

That sales contract for the first time also granted Botswana direct access to the international diamond business. Botswana and De Beers are joint owners through De Beers Botswana (Debswana) of Orapa and Jwaneng, the two most important diamond mines in the world.

Right to sell diamonds

The Botswana government now has the right to sell up to 15% of the run-of-mine production from Debswana - something it had pushed for without success in previous negotiations with De Beers.

De Beers has traditionally insisted on selling all its diamonds through a single channel, the DTC, which markets its output to the diamond trade at a series of 10 sales functions, called "sights", which are held throughout the year and attended by the "sight holders" with whom the company has marketing arrangements.

De Beers produced 27.9m carats of diamonds last year from its mines in Botswana, SA, Namibia and Canada and sold rough diamonds worth US\$5.5bn.

In the first six months of this year diamond production by De Beers rose to 14.3m carats (first half of last year was 13.4m carats) but sales of rough diamonds were unchanged at US\$3bn because of lower prices.

The Botswana government's allocation is to be marketed by a trading company it has set up called the Okavango Diamond Company, which announced last month that it was carrying out trial runs ahead of the start of regular auctions.

Sight holders

De Beers' chief executive Philippe Mellier said last week during the presentation of the group's interim results for the six months to the end of June that "the sight holders have pretty much accepted the move to Gaborone".

"A seminar was held a few weeks ago in London at which senior officials from the Botswana government presented to the diamantaires and were available to answer questions at one-on-one meetings. The feedback from that has been good," he said.

He said that there were 80 DTC staff working in Gaborone, of whom 36 were expatriates and 44 were Botswana citizens. He expected 82 DTC staff to relocate from London to Gaborone. Total staff at the DTC would eventually be 163, of whom 52 Botswanans had been appointed at this stage so there were 29 places still to be filled.

Last year, the Botswana mines accounted for 20.2m carats, 72%, of De Beers total diamond production of 27.9m carats. SA was the second largest contributor at 4.4m carats, most of which came from the Venetia mine in Limpopo.

Then De Beers chairman Nicky Oppenheimer said in September 2011 that "this is a once in a generation opportunity for Botswana and De Beers to shape the future of the diamond industry".

He said: "Botswana has preserved and enhanced a highly successful route to market, focused on maximising the value of her natural resource and De Beers has secured long-term and uninterrupted access to the largest supply of diamonds in the world."

No pressure

At the time diamond analysts believed that De Beers had been pressured by the Botswana government to make the changes given the country's dominant position in world diamond production. In return De Beers was granted the 10-year sales contract, which was double the normal five-year term that had been negotiated until then.

That assessment was denied by both Oppenheimer and Botswana Minerals, Energy and Water Resources Minister Ponatshego Kedikilwe, who rejected suggestions that Botswana "had twisted De Beers' arm".

One analyst retorted that "the Botswana government did not twist De Beers' arm. It simply put a gun to its head".

The motivation behind Botswana's strategy is to turn Gaborone into a world diamond trading, cutting and jewellery manufacturing centre so the country will continue to benefit from the diamond business even after its major mines have closed down.

That point is still some way off. De Beers has completed the infrastructure required for the Cut-8 extension at the Jwaneng mine which, Mellier said, will yield some 102m carats of high-quality diamonds and extend the life of the world's richest diamond mine to at least 2028.

He said following the receipt of the final regulatory clearances for the Venetia underground project in February, a project team had been established and early earthworks had commenced.

Source: Business Day via I-Net Bridge

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