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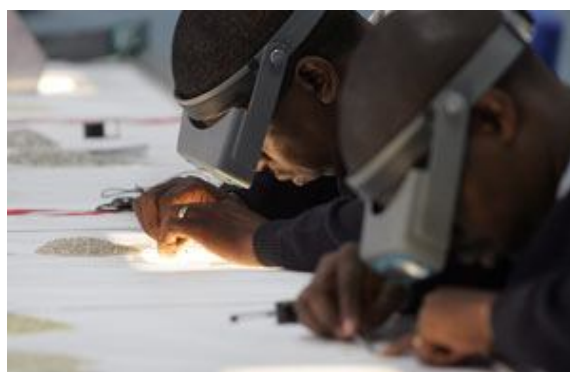
Diamonds in Africa

Keeping the sparkle at home

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AFP



African diamond producers want to extract more value from their stones

AT THE new Eurostar diamond cutting factory in Gaborone, the capital of Botswana, hundreds of workers in neat rows are labouring over tiny stones. Eurostar, an Indian-owned diamond cutting and trading company headquartered in Belgium, set up in Botswana in 2004 and has been training locals to polish and cut diamonds. The factory, which employs 456 people and shapes about 1,000 stones a day, hopes to expand to over 1,000 employees. Another 15 big international diamond firms also have operations in Botswana, the world's largest diamond producer.

Until recently Botswana, a country of 1.8m people that produces 27% of the world's diamonds by value, exported only rough stones. The government, which is struggling to diversify its economy and create jobs, wants to get more out of its main commodity. Cutting adds about 40% to the value of rough stones. But the idea, explains Akolang Tombale, the permanent secretary of the ministry of minerals and energy, is to create an international diamond centre that not only cuts and polishes, but also trades diamonds and provides security, technology and financial services. The government hopes this will spill over into other sectors and help diversify the economy. For now, the diamond industry should create over 3,000 jobs by the end of next year.

A significant step in that direction was the opening in Botswana on March 18th of a Diamond Trading Company (DTC), a joint venture between De Beers, a big diamond producer, and the government. De Beers, which produces about 40% of the world's diamonds, extracts almost all of Botswana's stones through Debswana, its partnership with the government. In 2006, when its mining licence and sales agreement in Botswana came up for renewal, De Beers agreed to open a DTC in Gaborone. The swanky new centre sorts and values local rough stones and, by 2009, expects to sell \$550m-worth of diamonds to the 16 carefully selected international firms that were required to set up shop in the country to be allowed to buy. From next year De Beers will also aggregate all the diamonds it markets—45% of world production—in Botswana rather than London.

Turning Botswana into an international diamond centre will not be easy, though. About 58% of the world's diamonds are cut in India, where labour is cheap and the government provides attractive incentives. Other Asian centres, such as China and Thailand, are rising fast. The long-established cutting centres in Israel, and to a lesser extent Belgium and America, remain competitive for the largest, most valuable diamonds. Antwerp is still where many of the world's polished diamonds are bought and sold. Botswana's production costs are three times those in India. It does not make economic sense to cut very small diamonds there.

Mr Tombale admits that unionised Botswana cannot compete on labour costs with India. But when demand outstrips supply, access to rough stones is a key attraction, as is the government's attitude, says Mervin Lifshitz, who chairs the Botswana Diamond Manufacturers' Association. The country tops the regional charts for good management and low corruption.

South Africa and Namibia, the fifth- and sixth-largest diamond producers, are also keen to make more of their diamonds. But unlike Botswana, which is happy to have its stones mixed with those from other countries, both its neighbours have decided to earmark a portion of their own production for local manufacturing. Namibia has set up a DTC with De Beers to sort and value the country's production and sell a fraction of it to the 11 manufacturers it has licensed. And on February 29th South Africa launched the State Diamond Trader, which will buy up to 10% of diamonds extracted locally to resell to small cutters, who complain that they cannot buy enough diamonds.

Critics point out that most South African diamonds cannot be profitably cut at home. Yet rather than selecting those that can be, the State Diamond Trader will buy a representative selection of production. It says it will pay market prices, but producers are concerned that they may have to sell on the cheap. Local manufacturers also point out that the duty, tax and currency regime is not as favourable as in India or Israel. Fixing those problems might be a better way to boost the local industry than forcing diamonds to stay at home.

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