

# ROUGH DIAMOND SALES AND DISTRIBUTION

## 2013 SNAPSHOT

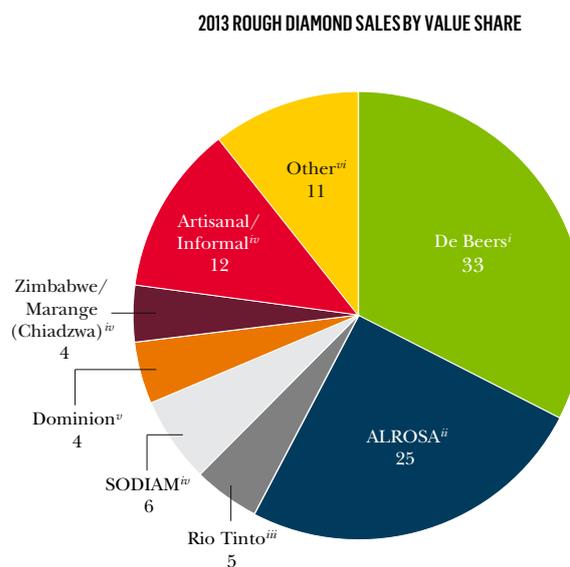
Global rough diamond sales by producers increased approximately five per cent from 2012 to 2013, to reach a total of just under US\$18 billion.

De Beers remained the largest supplier with roughly 33 per cent of overall sales measured by value (the same share as in 2012), followed by ALROSA with 25 per cent of sales (vs 23 per cent the year before). Other primary suppliers included SODIAM (Angola) with an estimated six per cent share, Rio Tinto with a five per cent share and Dominion Diamond Corporation and the Zimbabwe alluvial producers with about four per cent each, all in approximate USD value terms (see Fig. 20).

A variety of rough diamond sales channels are used by primary suppliers (see Fig. 21). De Beers uses multi-year contracts with more than 80 term contract clients – Sightholders – to sell most of its production. De Beers has also used sophisticated online auctions since 2008 to sell a proportion of the Group’s production. In recent years, ALROSA has established three-year supply agreements with a selection of customers and supplements these sales with one-time sales as well as competitive bidding (auctions)<sup>22</sup>. However, some producers, such as Gem Diamonds and Petra Diamonds, use an auction-only platform.

FIG. 20: GLOBAL ROUGH SUPPLY

Per cent



<sup>i</sup> Okavango Diamond Company sales are accounted for in the De Beers number as sales from DTC Botswana  
<sup>ii</sup> Excludes sales of polished diamonds and sales of rough diamonds to Gokhran  
<sup>iii</sup> Company Annual/Quarterly Reports  
<sup>iv</sup> De Beers estimates  
<sup>v</sup> Includes 40 per cent of Diavik production and 80 per cent of revenue from Ekati from April 2013  
<sup>vi</sup> Company reports including Gem, Petra, Firestone, Lucara, Kimberley Diamonds, among others

Source: De Beers



In fact, supply through term contracts with a number of selected customers seems to be the preferred mode among suppliers offering a relatively stable volume and mix of goods, often supplemented by auctions, especially of large stones.

Whereas BHP Billiton used auctions to sell production from its Ekati mine, Dominion Diamond Corporation, which acquired 80 per cent of the mine from BHP in 2013<sup>23</sup>, has recently announced that the company plans to sell its production from Ekati and its share of the Diavik mine production through contract sales to approximately 30 companies from July 2014<sup>24</sup>.

#### **MORE ROUGH DIAMONDS ARE BEING SOLD LOCALLY**

Producing countries have been playing a more active role in the sale and distribution of rough diamonds. This is driven by a strong desire on the part of national governments to increase their share of value-add of the primary resource, and has resulted in the establishment of domestic sales channels such as the State Diamond Trader in South Africa, and the Okavango Diamond Company in Botswana.

The trend towards in-country value addition to diamonds saw perhaps its largest milestone yet in 2013, with the move of De Beers' Global Sightholder Sales to Botswana, and the organisation of De Beers' first ever international 'Sight' in Gaborone in November 2013.

**FIG. 21: ROUGH DIAMOND SALES METHODOLOGIES**

SALES METHOD	DESCRIPTION
TERM CONTRACT	<ul style="list-style-type: none"> <li>Agreement for the continued sale of a certain type and amount of rough diamonds over an extended period. Contract lengths vary. Generally, the price is set by the seller and the same prices are charged for the same products to all buyers.</li> </ul>
WILLING BUYER, WILLING SELLER (OR 'PLACED' SALES)	<ul style="list-style-type: none"> <li>Ad hoc sales agreement between seller and buyer for a particular type of range of rough diamonds with no guarantee of continued supply. Price, either set by seller or subject to negotiation between buyer and seller.</li> </ul>
AUCTION	<ul style="list-style-type: none"> <li>Discrete sales event at which bidders compete for the purchase of a parcel of rough diamonds through a series of 'rounds'. Various types can be employed such as multiple unit auctions and open ascending price auctions. In most auction types (except for tenders – see below), participants have the opportunity to amend their offers in response to other bids submitted. When one bidder has outcompeted the others in the process, the auction is complete. Price is an outcome of the competitive bidding process.</li> </ul>
TENDER	<ul style="list-style-type: none"> <li>Discrete sales event at which bidders submit a single bid for the purchase of rough diamonds through a 'closed envelope' approach. The highest bid submitted is the winner and as a rule participants have no opportunity to amend their offer once submitted.</li> </ul>

Source: De Beers

This move followed the conclusion of a new diamond sales and marketing agreement between De Beers and the Government of the Republic of Botswana and involved the transfer of the majority of De Beers' sorting and rough diamond sales activities, including 84 employees, from De Beers' London offices to Gaborone. Employees who relocated from London continue to work to integrate and harmonise international skills, while also developing the skills of the Batswana, strengthening the domestic talent pool and the Botswana diamond sector overall.

As of 2014, the majority of De Beers' rough diamond availability is sold in Botswana. This will help position the country as a global centre for the diamond industry. The holding of Sights in Botswana's capital means that representatives of De Beers' Sightholders – more than 80 of the world's leading diamantaires – travel to Gaborone up to 10 times a year, creating additional demand for local goods and services. It will also facilitate the expansion into downstream beneficiation and the development of diamond-related services. All of this has the potential to contribute to substantial job creation in the Botswana economy well beyond the jobs created by De Beers' activities directly related to diamond selling (see Fig. 22).

For more than 45 years, the partnership between De Beers and Botswana has delivered significant benefits to the people of Botswana. At the heart of this partnership is Debswana, the diamond mining joint venture between the Government and De Beers. Similar arrangements exist in Namibia and South Africa, where partnership agreements are also in place – in Namibia with the Government through Namdeb Holdings, and in South Africa with its Black Economic Empowerment partner Ponahalo. Governments in all these countries, as well as the thousands of local workers in the diamond industry, have made substantial efforts to support the industry. However, to ensure the long-term sustainability of the domestic diamond sector, it remains critical that all stakeholders work together to maintain and strengthen the productivity and competitiveness of the sector.

## FIG. 22: REACTIONS TO THE MOVE OF DE BEERS' GLOBAL SIGHTHOLDER SALES TO BOTSWANA

### **BOTSWANA GOVERNMENT STAKEHOLDERS BELIEVE THE MOVE HAS DELIVERED VALUE...**

"De Beers handled the moving process very well."

"De Beers and Botswana have been strategic partners since before the term existed – this has delivered a lot to the country."

"People are now more aware of Botswana globally, because they have to come here more often."

"Botswana can show other countries how they can benefit from natural resources."

### **... LOCAL BUSINESSES FEEL THE BENEFITS**

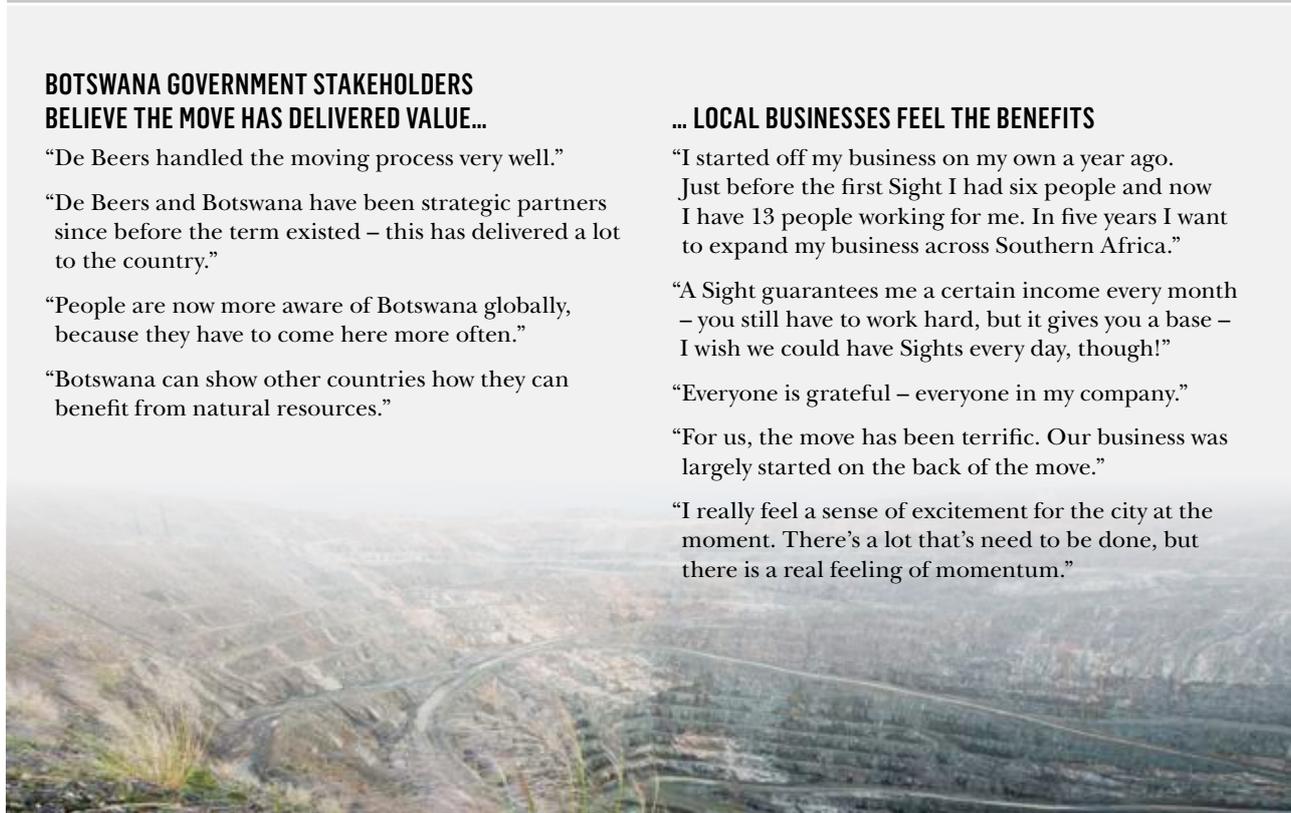
"I started off my business on my own a year ago. Just before the first Sight I had six people and now I have 13 people working for me. In five years I want to expand my business across Southern Africa."

"A Sight guarantees me a certain income every month – you still have to work hard, but it gives you a base – I wish we could have Sights every day, though!"

"Everyone is grateful – everyone in my company."

"For us, the move has been terrific. Our business was largely started on the back of the move."

"I really feel a sense of excitement for the city at the moment. There's a lot that's need to be done, but there is a real feeling of momentum."





## LOOKING AHEAD

### SALES CHANNELS WILL CONTINUE TO EVOLVE

In rough diamond sales, there are significant benefits to being a scale producer and supplier. The various mines offer quite different production profiles, and production fluctuates in the quantity, size and quality of diamonds. This means that a company's ability to offer a consistent supply of gems is strengthened by operating several mines.

This kind of offering attracts the best diamantaires and also allows for a steadier cash flow for the company.

Rough diamond sales channels will continue to evolve as producers strive to maximise value creation for their production. De Beers is in the process of redesigning its distribution system.

The company remains committed to its model of term contract sales to Sightholders, to which the company will continue to allocate the majority of its supply. However, in May 2015, it will introduce a new category of rough diamond customer: the Accredited Buyer. An Accredited Buyer will not be supplied by way of a term contract, but will be eligible to purchase rough diamonds not already committed for sale by way of term contracts. Over time, Accredited Buyers that demonstrate sufficient demand for De Beers' goods will be eligible to apply for Sightholder status.