OFAC AND MARANGE: THE CASE OF ROUGH DIAMONDS INVOICED THROUGH AN EMERALD MINE

Last week, DIB #604 disclosed that a dozen rough diamond shipments from Zimbabwe’s Marange area had recently been exported to Dubai with Kimberley Process (KP) certificates not countersigned by the so-called KP Monitor. This is in violation of the agreement between the KP and the government of Zimbabwe, which prohibits any and all rough diamond exports from the Marange area without KP Monitor approval.

The relevant KP certificates identify the exporter as Marange Resources Ltd, a wholly owned subsidiary of the government-owned Zimbabwe Mining Development Corporation (ZMDC). The ZMDC is an entity that appears on the United States’ “blocked entities list,” better known as the OFAC list. [OFAC stands for Office of Foreign Assets Control.] All financial assets in or transferred through bank accounts in the United States that belong to individuals or entities on this list must be frozen and blocked.

In today’s world, it is impossible to make a dollar transaction between two countries anywhere in the world without using a U.S. correspondent bank (also called an intermediary bank.) U.S. banks therefore hold correspondent accounts of Zimbabwe banks to which proceeds belonging to clients of Zimbabwe banks are credited. As a wholly owned subsidiary of an entity on the OFAC list, Marange Resources thus runs the risk that any U.S. dollar payment made to it may be subject to confiscation by the correspondent bank in the United States.

To make things even more complicated, by law, invoices for any mineral exports from Zimbabwe are issued by the Minerals Marketing Corporation of Zimbabwe (MMCZ), also a wholly owned Zimbabwe government corporation. The MMCZ is also included on the OFAC list of the U.S. Department of Treasury.

Therefore, MMCZ, ZMDC and Marange Resources Ltd. face the joint dilemma of deciding what kind of invoices their clients should present to their banks to pay for the rough diamonds exports. Payment must be received before the goods are shipped, thus the risk of confiscation of funds falls squarely on the buyers of rough.

Politically Motivated Sanctions

It appears that the technique Marange Resources found to circumvent these OFAC sanctions is to use the invoicing of a third-party company that has nothing to do with the transaction. The beneficiary company selected for this purpose was Sandawana Mines (Private) Limited, which is well known in the gem business (for over 45 years) as a miner of emeralds. The company doesn’t mine diamonds.
In 2006, Sandawana Mines was acquired (90%) by the ZMDC, which means that, prima facie, Sandawana is also a subsidiary of an OFAC-listed company. However, U.S. banks would need to do some extra due diligence to make the connection.

The OFAC list is often identified with terrorists or companies engaged in, or financing, terrorist activities. The truth is more complex. The Treasury Department’s OFAC administers and enforces a number of economic sanctions programs, using the blocking of assets and trade restrictions as instruments to accomplish U.S. foreign policy and national security goals. This is extremely relevant: the OFAC sanctions are a policy tool to advance U.S. political objectives. There may be other countries – and there are – which have certain restrictions on trade with Zimbabwe, but most of these do not focus on the mining companies.

In the case of Zimbabwe, the U.S. sanctions square aim at getting a regime change, quite comparable to sanctions against Iraq, Iran, Cuba and other countries. It was former President George Bush who determined some seven years ago that “the actions and policies of certain members of the Government of Zimbabwe and other persons undermine law in Zimbabwe, cause politically motivated violence and intimidation in that country, and trigger political and economic instability in the southern African region.” The former President Bush found this to “constitute an unusual and extraordinary threat to the foreign policy of the United States” and declared a national emergency to deal with that threat.

The consequent OFAC sanctions and other regional and international pressure caused Zimbabwe’s Robert Mugabe and opposition leaders to agree to form a transitional unity government until a new constitution could be established and new elections held. This is progress – and actually underscores that sanctions are effective. Today reformers in government have been able to stop the country’s severe economic decline and taken important steps toward economic reform.

Admittedly, there are still extremely problematic individuals and entities in Zimbabwe who continue to obstruct full implementation of the agreement and are still committing political and human rights abuses. Thus the OFAC list is often identified with terrorists or companies engaged in, or financing, terrorist activities. The truth is more complex. The Treasury Department’s OFAC administers and enforces a number of economic sanctions programs, using the blocking of assets and trade restrictions as instruments to accomplish U.S. foreign policy and national security goals. This is extremely relevant: the OFAC sanctions are a policy tool to advance U.S. political objectives. There may be other countries – and there are – which have certain restrictions on trade with Zimbabwe, but most of these do not focus on the mining companies.

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sanctions are still warranted. However, at some point the progress to regime change should generate a reduction of Zimbabwe entities and individuals noted on the OFAC list. The continued presence of some diamond mining-related entities may, at some point, inadvertently create instability in the country’s diamond sector.

Concern about United States Policies in Kimberley Process

The use of an emerald mining company for invoicing purposes for Marange Resources’ rough diamond exports shows Zimbabwe’s “desperation” in finding ways to export rough diamonds officially. It must be realized that even if these dozen export shipments to Dubai would have been certified by the KP Monitor Abbey Chikane, the U.S. sanctions on Zimbabwe would still apply.

There are currently at least two large diamond mines in the Marange areas that have good security, no occurrences of illicit mining, no military presence at the concession grounds, and no instances of human rights abuses. These mines were found to be of a world-class standard by the KP Monitor. Within the KP Working Group on Monitoring, it is believed that there is a solid majority that wants the “good diamonds” to be certified and exported.

One of the problems, however, is the United States. That country’s KP representatives are believed to raise every possible obstacle to frustrate the resumption of orderly diamond exports from Zimbabwe. It doesn’t matter what reasons are given: U.S. government officials – especially those in the Department of State – serve their country by defending, and fighting for, United States’ policies to be implemented. That is their job; that’s why they are paid a salary.

It is important to raise this issue because the international diamond industry must understand that even when the challenges facing Zimbabwe’s diamond sector are met, when the so-called Joint Working Plan is totally implemented, and when the KP Monitor returns his keys and goes home, the continuation of OFAC sanctions on the country’s diamond companies will continue to prevent a transparent functioning of the sector. More “emerald companies” may have to be formed... it will create a compliance nightmare.

U.S. Correspondent Banks Ignore OFAC Rules

When dealing with U.S. dollar transactions between foreign entities, correspondent banks in the United States must know the identities of both the paying party and the beneficiary, and those names are checked through elaborate computer programs to identify “blocked” parties, or by a manual risk-based check mechanism. The OFAC rules require the U.S. banks to intercept and freeze payments to OFAC-listed entities. In our particular case, the U.S. banks should have blocked the sales proceeds in the relevant correspondent accounts. Why waking “sleeping dogs”? The purchasers of rough are entitled to certainty – they shouldn’t have to play in a casino environment and must know that their moneys are safe.

While tracing the money of these latest diamond transactions to Dubai, we found that it was all paid to Sandawana Mines’ account at the CBZ Bank Limited in Harare, through two New York banks. Undoubtedly, these New York banks failed to conduct proper due diligence. Sandawana Mines does not appear on the OFAC list. But banks, industry and Zimbabwe leaders must know that OFAC sanctions imposed on a blocked entity also apply to any entity, says OFAC, “in which the blocked entity owns, directly or indirectly, a 50% or greater interest.”

Applying this principle to the Zimbabwe diamond scene, OFAC-listed companies hold at least 50 percent in all Marange diamond mines as well as in Sandawana Mines. There is an urgent need to address this issue.

OFAC Guidance documents clearly establish that U.S.
good governance and transparency.

Some of the governments within the KPCS may not be concerned about the future of the diamond business – as long as their respective countries’ political objectives are met. I beg to differ.

Ideally, the U.S. government should have the decency to remove Zimbabwe’s diamond entities from the OFAC list when the KP Monitor determines that these organizations work in a decent, responsible and transparent manner – without any involvement in human rights abuses.

One Solution:
Trade in Euros, Sterlings or Swiss Francs

If all of this fails, there is a very simple, neat and transparent solution: Marange diamonds should be traded in Euros, Sterlings or Swiss Francs. There would be no U.S. correspondent bank involved and the rough exporting business would remain fully outside the OFAC sphere. No U.S. bank would run compliance risks – or the consequences of not freezing their clients’ money. At the end, commercial common sense will prevail. It must.

For more on Zimbabwe, see pages 5974-5976
The Jewelers of America (JA) and its president Matthew Runci are full members of the World Diamond Council (WDC). The purpose of the WDC is to present a coherent, consistent and constructive voice as observers in the Kimberley Process Certification Scheme (KPCS).

Somehow, however, internal U.S. domestic interests have caused the JA to pursue its own policies vis-à-vis the KPCS outside of the WDC framework. It may well be legitimate, but if all WDC members would individually articulate their own positions directly to the KPCS, it would lead to tremendous confusion and polarization in the industry.

In a letter addressed to Stephane Chardon, the Chair of the KP Working Group on Monitoring, the JA expresses “grave concern” about Zimbabwe’s apparent violations of the KP’s Joint Work Plan (JWP), which was created in November 2009 to ensure the country’s compliance with KP’s minimum requirements. The plan called for a suspension of diamond exports from Marange until a KP-appointed monitor could certify that shipments were compliant with industry standards. Therefore, the JA asserts that the multiple diamond shipments from Zimbabwe to the UAE, reported to have occurred between December 2009 and April 2010, violate the JWP.

Industry Consensus

If the JA would have sought support from other WDC members, the letter might have been submitted on behalf of the entire industry. Runci’s letter stresses the “very fragile state of the Kimberley Process today” and actually – and probably quite rightly – makes the effectiveness of the KP a key issue by implying that if the KP fails, “the industry will be in a similar position to that prior to the launch of the KP.”

The majority of cutting centers and, we believe, the majority of KP Participants share the view that the KP Monitor in Zimbabwe should certify diamonds from mining areas that meet all the KP minimum requirements. On this point, the JA represents a contrary view when it says that “it would be a critical mistake for the KP to authorize the resumption shipments of any goods from Marange.” If the JA does not distinguish between separate mining entities, it should be consistent and also call for a halt of Rio Tinto’s Murowa rough exports. However, the organization is not doing that because Rio Tinto is rightly viewed as a responsible, decent and transparent miner. But if the KP Monitor finds mining companies comparable to a world-class standard in the Marange area, it would be very counterproductive to prevent their rough exports from resuming.

The KP is problematic. But it is the task of the industry to ascertain order and stability in the diamond business. Responsible mining is capital intensive. It costs money to keep concession areas secure, pay workers decent wages and provide them with decent housing facilities. If, for political expediency or political purposes, such companies are prevented from selling their output, they will collapse or resort to smuggling to survive.

That is not in the best interest of the diamond industry. It is a pity that the JA sees fit to intervene in the authority given to the KP Monitor by pre-empting his possible conclusions.

Maybe the JA realizes that it no longer reflects the position of the worldwide diamond industry at this point. Perhaps this is reason it decided to write its own letter to the KP? Having said all of this, the letter, in full below, is still an important letter to take note of.

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**May 6, 2010**

Dear Mr. Chardon,

I write to you in my capacity as President & CEO of Jewelers of America, with the expressed authority to speak for our membership of more than 10,000 retail jewelry stores on the matters currently before the Kimberley Process Working Group on Monitoring (WGM). Prominent among these members are Ben Bridge Jeweler, Birks & Mayors, Cartier, Fred Meyer, Harry Winston, Helzberg, Reeds, Sterling, Tiffany & Co., and Zale Corporation, together with thousands of fine guild and independent jewelers throughout the United States.
Jewelers of America participated actively in the development and early years of the KP and led the U.S. industry effort to secure passage of the Clean Diamond Trade Act in the U.S. Congress.

We are gravely concerned by reports in recent days of violations of the Swakopmund Decision and the Joint Work Plan (JWP). Therefore, in order to ensure consumer confidence in the products we sell, we feel it would be a critical mistake for the KP to authorize the resumption of shipments of any goods from Marange until there is renewed assurance by the WGM that corrective measures have been instituted to make certain that the KP rules will be followed in the future.

We are seeking the cessation of shipments until there is renewed assurance because confirmation from the WGM late last week that multiple shipments of rough diamonds moved from Zimbabwe to the UAE during the period December 2009 through April 2010 – in apparent contravention of both the Swakopmund Decision and the JWP – only serves to underscore the very fragile state of the Kimberley Process today.

While we are encouraged by the swift action of the chair of the WGM in calling for further investigation, renewed vigilance, and direct KP demarche to the Zimbabwean Ministry of Foreign Affairs, among other steps, we feel it is vital to point out that it is not only the commitment of certain participants that has been called into question, but the very credibility of the Kimberley Process itself. In addition, serious consideration should also be given to UAE actions in this matter, if the alleged shipment of diamonds were not confiscated, because if illicit exports are banned, then so must illicit imports.

As an international trading system, the Kimberley Process is a compilation of rules which have been agreed among a defined group of governments – with concurrence by civil society and industry. Compliance is defined in terms of trade conformity to those rules, and nothing less. To establish an accurate measure of KP achievement to date, we believe we must start by recalling the reasons why the industry supported the establishment of KP in the first place. The rationale was that as long as illicit diamonds were moving unchecked into the supply chain, the integrity of all diamonds could be called into question. It was not that the vast majority of diamonds were actually suspected of being illicit, but rather that the integrity of all diamonds might be questioned as long as the trading system were not seen as stopping shipments of conflict diamonds, which made up only a small minority of all diamond shipments. That’s what KP was to do – to prevent the small minority of illicit exports and to prevent them from entering the trade of a participating country. “Credible and effective measures” became the catchphrase for the concept.

When seen from the perspective of KP’s founding purpose, the reports of multiple shipments of goods from the Marange region moving through the KP system of export and import controls in recent months must be seen as something much more than a statistical deviation. The Swakopmund Decision and the JWP are the mechanism KP has chosen to preserve its credibility and the credibility of all diamonds in the face of specific challenges that have presented themselves. Success must be seen in terms of how KP handles the tough challenges that present themselves, otherwise the industry will be in a similar position to that prior to the launch of KP.

Consumer confidence in diamonds has been preserved to this point precisely because KP is largely seen by interested parties as a solution to the original problem – not perfect but substantial. But reports of shipments of goods from Marange repeatedly crossing at least two sets of borders in apparent contravention of the Swakopmund Decision and the JWP, challenges the effectiveness of KP in terms of its founding purpose. If KP is seen to be unable to meet the formidable challenge presented by troubled situations, such as is the case in Zimbabwe, then its high rate of compliance in routine situations will, we fear, be judged as largely irrelevant to its original purpose.

Swift action to date by the chair of the WGM is appropriate and welcomed. It helps to preserve the hope that the credibility of KP – and of all diamonds – may still be preserved. But until more is known about the circumstances that made it possible for these shipments to move without regard to the rules established – and equally importantly until there is renewed confidence that corrective measures have been instituted to ensure that the KP rules will be followed in the future --- we feel it would be a critical mistake for the KP to authorize the resumption of shipments of any goods from Marange.

Sincerely,

Matthew A. Runci
President & CEO
Zimbabwe Police Invited to Apply for Mining Licenses

Zimbabwe Minister of Mines Obert Mpofu has informed his country’s police force that they are welcome to apply for diamond mining licenses. Addressing police recruits at the Ntabzinduna Training Camp outside Bulawayo last Friday, the minister reportedly said that his ministry would not discriminate between license applicants, saying to police that “We will give you mining licences just like anyone else who applies.” cites SW Radio Africa.

Mpofu’s public invitation follows earlier reports that Police Commissioner Augustine Chihuri, who was present during the minister’s announcement, had already applied for such a license. Sources say that the police plan to use a registered company known as Security Self-Reliance Enterprises (Pvt) Ltd.

Mpofu has been accused of abusing his position by awarding mining rights to companies controlled by top military personnel, state security and members of the ZANU PF.

Harare Police Arrest ACR Financial Director

Police in Harare arrested Ian Harris, the financial director of African Consolidated Resources, last Thursday on charges of fraud and for operating an ACR subsidiary in Chiadzwa without registration. Harris was picked up at ACR’s Harare offices by members of Mines Minister Obert Mpofu’s private police, and is reportedly still in police custody, according to media reports.

ACR is involved in a protracted struggle with Zimbabwe’s government over the mining rights of the controversial Chiadzwa diamond fields in Marange. Police told ACR’s Harare officers by members of Mines Minister Obert Mpofu’s private police, and is reportedly still in police custody, according to media reports.

ACR is involved in a protracted struggle with Zimbabwe’s government over the mining rights of the controversial Chiadzwa diamond fields in Marange. Police told ACR officials last Thursday that ACR’s subsidiaries, in whose names the Chiadzwa claim is registered, had not been legally incorporated at the time they were awarded the claim in 2006. However, ACR counters that its subsidiary was in the process of registering at the time.

The officers were looking for ACR chief executive Andrew Cranswick, who is reportedly in South Africa and may risk arrest should he return to Zimbabwe, as well as two directors of ACR’s subsidiary companies: one of the directors was deceased and there were no indications of the other’s whereabouts. The men were also wanted on allegations of corruption and fraud, sources say.

Cranswick has publicly stated that the arrest of Harris is “pure abduction” and calls the charges “mere harassment.”

Mbada Diamonds and Canadile currently hold licenses to mine on the disputed Chiadzwa concessions.

Tanzanian Mining Sector Seeks Changes to New Mining Bill

Tanzanian President Jakaya Kikwete is feeling the pressure from foreign investors nervous about how the Mining Act 2010, recently passed by the country’s Parliament, will affect current and future local mining investments.

The Tanzania Chamber of Mines and Energy (TCME), which represents the country’s major mining companies, has publicly denounced the new Act and has threatened national protests, appealing to the president not to assent to it before the group’s proposed amendments are incorporated, reports The Citizen.

The Bill raises mining royalties, prohibits the issuance of new gemstone mining licenses to foreign investors, makes it mandatory for mining companies operating to list on the Dar es Salaam Stock Exchange, and allows the government to acquire stakes in mining projects.

The TCME argues that the current version of the Bill threatens to weaken investor confidence in the country and abate Tanzania’s competitiveness regarding mining investments of international companies, especially while global recovery is only timid.
President Khama Vows Support at Shrenuj Botswana Opening

Botswana President Lt Gen. Seretse Khama Ian Khama guaranteed his government’s long-term commitment and support to diamond manufacturer Shrenuj Botswana (Pty) Limited while speaking at the new factory’s inauguration ceremony in Gaborone.

President Khama encouraged the company to focus on establishing local jewelry manufacturing thereby helping Botswana to diversify from its rough diamond focus into downstream industries such as cutting, polishing, jewelry manufacturing and retail, according to BOPA Daily News.

Lt Gen. Khama commended the Shrenuj group for employing 155 local Batswana, 30 percent of whom are hearing impaired, which is in line with the country’s policy of citizen economic empowerment. Given that career opportunities for the hearing impaired are limited, the president publicly encouraged other DTC Botswana sightholders to follow Shrenuj Botswana’s lead in catering to all sections of the local community.

Shreyas Doshi, Chairman and Managing Director of Shrenuj & Company Limited, said that his Botswana factory intends to do more than polish diamonds and create a diamond jewelry manufacturing presence in the country. He emphasized that the development of local human resources and the transfer of skills and technology are fundamental to Botswana’s economic growth policy. He added that as corporate citizens, the success of such a policy will also mean success for the company, reports BOPA Daily News.

The manufacturer was appointed a DTC Botswana sightholder in July 2009.
Polish and Shine

Kristall Posts $284.3 Million Loss in Profit

Russia’s largest diamond manufacturer, Kristall of Smolensk, suffered a 44.4 percent loss in net profit, at 8.907 million rubles (US$284.3 million), in 2009 due to mounting costs of servicing loans, according to the company’s financial report.

The state-owned company said its sales revenue in 2009 totaled 7.762 billion rubles (US$247.8 million), a slight increase from the previous year’s 7.513 billion rubles (US$239.8 million). The cost of sold goods rose 4.6 percent to 7.105 billion rubles (US$10.5 million).

Kristall says that 2009 was the most difficult year in the company’s history due to the shortage in rough supplies as a result of the global financial crisis. To make up for the lack of rough from Akrosa, which did not sell to the market during the first half of the year, Kristall says it was forced to import rough to keep its capacity running, reports Interfax. It also sold 5 billion rubles (US$159.6 million) worth of cut diamonds to the State Precious Metals and Gemstones Repository (Gokhran), which accounted for 56.6 percent of Kristall’s entire sales in dollars last year.

Kristall sold 0.7 percent of its cut diamonds in the domestic market. Composing its international export destinations, 13.5 percent went to Israel, 11.2 percent to the United Arab Emirates, 8.6 percent to the United States, 4.6 percent to Hong Kong and 3.7 percent to Belgium.

The company’s inventory shrank 56 percent to 1.488 billion rubles (US$47.5 million) worth of cut diamonds, due to the high volume of sales to the Gokhran and the drop in output, reports Interfax.

Indian Delegation Eyes Canada for Direct Rough Supply

In an attempt to counter China’s growing influence in accessing African rough diamonds, Indian manufacturers are considering visiting Canada to secure direct rough diamond supply agreements. The Surat Diamond Business Association may head a delegation of small- and medium-sized diamond cutters and polishers to meet with Canadian diamond miners to discuss direct access to Canadian rough, reports The Times of India.

A Canadian delegation of four members of Parliament and the president of the Canada-based Gujarali Business Association recently visited Ahmedabad and met with the SDA members and additional diamond manufacturers to establish and strengthen business ties.

Potential rough supply agreements with Canada follows recently signed three-year rough supply deals signed between Alroza and Diamond India Ltd., Ratilal Becharlal & Sons and Rosy Blue to ship rough diamonds worth $490 million. The contracts contain fairly flexible price and volume terms; it was agreed that the shipments could be increased, depending on the state of the market.

LKI Sues Insurers for Diamond Losses

Lazare Kaplan International (LKI) has filed a lawsuit in the Southern District of New York against a number of insurance companies claiming US$140 million in diamond losses. LKI and fellow plaintiffs Pinnacle Ltd., Serenity 2 Ltd. and Lazare Kaplan Belgium NV are suing Swiss RE International Se, certain underwriters at Lloyd’s, The Marine Insurance Company Limited and GE Specialty Insurance (UK) Limited for alleged refusal to reimburse them on diamond parcels that were delivered to third parties but for which they never received payment.

The court filing states that US$94 million in diamonds were delivered to Dubai-based diamond-trading company Gulfiam DMCC but were never paid for, US$60 million worth of diamonds were sent by Gulfiam to Gemport and were never paid for, and that another US$34 million worth of diamonds delivered to A.D. Middle East FZE and Overseas Hong Kong Ltd. were lost.

To read the court document in its entirety, go to our Legal Research page where you can download the document. http://tinyurl.com/32qfwf2
Global diamond producer Gem Diamonds sold 47,754 carats of rough worth US$42.9 million from its Lesotho and Australia productions during the first quarter of 2010. The miner experienced a strengthening of prices for commercial goods throughout the quarter and saw that prices per carat were significantly higher than the first quarter of 2009.

“The better than expected Christmas sales in the US, restocking in the cutting centers and continued strong demand for diamond jewellery in India and China have resulted in strong rough and polished diamond prices,” says Clifford Elphick, Gem Diamonds CEO. “It is pleasing to note that improved consumer demand in the quarter is impacting positively on polished prices, which have risen, albeit not as sharply as the rise in rough prices. The fundamentally positive supply demand picture remains,” he adds.

**Letsele**: Gem Diamonds’ Letsele mine in Lesotho, a 70:30 joint venture with the government of Lesotho, produced 20,507 rough diamonds in the first quarter, a 6 percent decline compared to the first quarter of 2009. The company says that its mining output was focused on the Main pipe, which resulted in a low grade recovered. While the first quarter’s sales volumes of Letsele production declined 30 percent, to 15,468 carats compared to 22,243 carats in the previous year, total sales value increased 20 percent, from US$22.6 million in the first quarter of 2009 to US$27.1 million in the first quarter of 2010. Letsele’s average price per carat value during the first quarter jumped 72 percent to US$1,753 from US$1,017 per carat in the first quarter of 2009. Subsequently, during a recent April tender, the company achieved an average price of US$2,002 per carat.

**Ellendale**: Gem Diamonds’ Ellendale mine in Western Australia, owned and operated by the company’s wholly owned subsidiary Kimberley Diamond Company NL, produced 40,006 carats only from its E9 pipe, keeping the E4 pipe on care and maintenance. Consequently, sales in the first quarter of this year only included production from E9 compared to last year, when sales included diamonds from both pipes. Therefore, the period’s sales volume, totaling 32,286 carats, was 79 percent lower than a year ago. However, the total sales value of US$15.8 million only declined 2 percent compared to the same quarter in 2009. Moreover, the value achieved per carat totaled US$489, a 379 percent jump from US$102 per carat a year ago.

**Gope**: Gem Diamonds’ reports that its wholly owned Gope project in Botswana is estimated to now contain 20.5 million carats and that the average resource diamond price has increased by 19 percent to US$162 per carat. Two rare blue diamonds were recovered from the sampling project.

The group says it “is currently considering its options” regarding its Cempaka mine in Indonesia and the Chiri project in Angola, which remain on care and maintenance. The company also reports in its interim statement that it holds US$88.5 million and has no debt.
Stellar Diamonds Acquires Full Control of Kono Project

Stellar Diamonds plc is acquiring Petra Diamonds’ shares in the Kono kimberlite project in eastern Sierra Leone, thus increasing its ownership of the project to 100 percent, as the remaining interest is held by Stellar’s wholly owned subsidiary, Stellar Diamonds Limited.

Kono is an advanced diamond exploration project, with underground mining operations targeting diamond-bearing kimberlite dykes within two exclusive prospecting licenses. To date, some 17 kilometers of kimberlite dykes have been mapped in the project area and more than 4,200 carats of diamonds have been produced by the Petra/Stellar joint venture.

Petra is divesting from the Kono kimberlite project as it does not financially contribute to the company’s long-term objectives of growing its annual production from one million carats to over three million. Kono has no carrying value in Petra’s balance sheet and therefore there are no impairments to be recognized by Petra with regards to the divestment, says Petra.

Meanwhile, Stellar counts the Kono Project as among the most advanced in the company’s West African portfolio, says Karl Smithson, Stellar Chief Executive. “With over US$17 million spent to date on the establishment of underground shaft and tunnel infrastructure, a 75 tonne per hour processing plant, earth moving machinery and on general exploration, the project has been on care and maintenance since May 2009. After the global fall in diamond prices. However, with the strong recovery in rough diamond prices, the Kono Project is an exceptionally well positioned development asset for Stellar to hold in its portfolio, offering growth to our future production pipeline.”

Under the terms of the agreement, Stellar will issue Petra with 4.5 million new ordinary Stellar shares (at a price of £0.20 per share) for a total consideration of £900,000, in return for Petra’s interest in the Kono Project, held via joint venture company Basama Diamonds Limited.

The completion of the transaction is subject, inter alia, to the execution of a share purchase agreement and issue of the Stellar shares to Petra. On completion, Stellar’s issued share capital will be 101,193,932 shares and Petra will become a 4.45 percent shareholder in Stellar.

Petra has agreed (subject to certain exceptions) not to dispose of any of the Stellar shares for 12 months from the date of the signature of the share purchase agreement, which is expected to be before 14 May 2010.

As part of the transaction, both Stellar and Petra have signed a cooperation agreement whereby Stellar will in good faith discuss with Petra the first option to joint venture any project in the Stellar portfolio which Stellar seeks to develop with a partner.

The Pol-K Shaft is one of two shafts where underground trial mining is taking place at the Kono Project. In the foreground is kimberlite.

Peregrine to Start Two Exploration Programs in Nunavut

Vancouver-based Peregrine Diamonds Ltd. will commence a US$3.5 million 2010 exploration program this month on its wholly owned Nanuq project in Nunavut, Canada. The program will include nearly 2,000 meters of core drilling, ground geophysics, prospecting and kimberlite indicator mineral sampling on a number of diamond-bearing kimberlite targets that were deemed “high priority” during drilling and sampling programs conducted throughout the past three years.

“The project has great exploration potential and our three diamondiferous kimberlite discoveries there in 2007 give us optimism that large kimberlites with economic potential can be discovered this year,” says Brooke Clements, Peregrine President.

Of the three diamond-bearing kimberlites discovered in 2007, two of them have estimated surface areas of five and seven hectares while the third has an estimated surface area of one hectare. After the initial ground geophysics will be carried out, ground magnetic and electromagnetic surveys will take place over priority geophysical anomalies selected from previously completed airborne surveys, says the company. Kimberlite-type geophysical anomalies that were prioritized on their geophysical signatures and association with kimberlite indicator minerals will then be targeted for drilling, which is scheduled to start in early July on up to eight targets. Any new kimberlite discoveries will then be tested for diamonds by caustic dissolution.

In related exploration news, Peregrine and Indicator Minerals have agreed to undertake a joint exploration program at the Nanuq North project, located north of Peregrine’s Nanuq
Alrosa Reports $160.3 Million Profit for 1st Quarter

Russian mining conglomerate Alrosa posted a 5.022 billion ruble (US$160.3 million) profit for the first quarter of 2010, far surpassing the company’s expectations of 2 billion rubles (US$63.8 million) for the quarter. Alrosa attributes the rise in profit to higher sales revenue “from all types of business due to the upturn in the diamond market,” the company said in a statement.

The first quarter’s net profit was down 55 percent from the 11.16 billion rubles (US$356.2 million) posted for fourth quarter of 2009. The decline is said to be due to a securities revaluation worth 13.875 billion rubles (US$442.9 million), which boosted profit in the last three months of 2009; no such revaluation was performed at the beginning of this year, according to Interfax.

NWT Exploration to Diversify from Diamonds

Canada’s Northwest Territories falls behind the rest of the country in mining exploration expenditure despite an almost doubling of mining investments this year, according to officials in Canada’s mining industry.

Forecasted mineral exploration figures from Natural Resources Canada estimate that mining companies intend to spend US$66.3 million in NWT exploration this year, up from US$29.5 million in 2009, reports CBC News. However, even with the rise in exploration spending, the NWT still lags at 8th place today from 5th place in 2005.

While the NWT is home to Ekati, Diavik and Snap Lake diamond mines, sources say the region’s mining industry is diversifying into other commodities such as rare earth elements, lead, zinc, silver, gold and nickel.

De Beers to Lay Off 350 Employees at Finch Mine

De Beers intends to lay off nearly 350 of its 870 employees at its Finch mine in South Africa’s Northern Cape, according to South African union Solidarity, which received the Section 189 Notice from De Beers last week. The mining company says the retrenchment comes as a result of the decline in diamond prices brought on by the global crisis.

In its notice, De Beers also claims that the quality of the diamonds produced at Finch’s block 4 has declined in comparison to the forecasts made during the planning of the project, according to Solidarity.

Additionally, the miner says that the strength of the rand against the dollar and high operational costs were placing additional pressures on the mine. Consultations between De Beers and Solidarity are to commence shortly, and the union says it expects “critical answers” from De Beers given that there seem to be “numerous indications that the recession is over,” says Solidarity spokesman Jaco Kleynhans.

He adds that the current revival in the diamond industry makes the layoffs seem unnecessary. In the preceding 12 months, the company has already retrenched 37 employees due to operational requirements.

Tom Tweedy, De Beers spokesman told Reuters that the company hoped to cut jobs at Finch in order to make the mine more profitable and that they were now entering into a consultation period with employees.

The Finch mine produced 1,426,000 carats in 2009, down from 2,317,000 carats in 2008.

Finch Processing Plant
De Beers, Tiffany London Stores Robbed of Millions in Diamond Jewelry

Diamond and gold jewelry estimated to be worth £2.5 million (US$3.7 million) were stolen from De Beers Diamond Jewellers and Tiffany & Co. branches at the Westfield Shopping Centre in London last Wednesday night. Up to 10 people wearing masks were reported to have used sledgehammers to break into the mall through a fire door and then into the jewelers’ stores, said police. After a raid that lasted five minutes, they reportedly escaped the scene of the crime and a high-speed police chase across West London in three stolen cars.

Witnesses said that the storefront window displays and glass cases of both jewelers were emptied of valuable diamond jewelry including necklaces, rings and bracelets, according to media reports.

This robbery is one of many that have reportedly taken place in the last month throughout London. Valuables worth more than £4 million (US$5.9 million) have been recently stolen from Watches of Switzerland, Cartier, Dolce & Gabbana, among others. Sources say that jewelry thieves are eager to cash in on the current high price of gold.

François Delage, Chief Executive of De Beers Diamond Jewellers told media sources that the company was working closely with the police and feels confident that the would recover the stolen jewelry.

Birks & Mayors’ Fiscal 2010 Sales Drop 6%

North American luxury jeweler Birks & Mayors has reported a 6 percent decline in sales for its fiscal year, ended March 27, 2010, despite strong fourth quarter sales.

Net sales for the Montreal-based jeweler totaled US$255.1 million in fiscal 2010, a six percent decline from sales of US$270.9 million for the previous fiscal year. The company, which operates Birks stores in Canada and Mayors stores in Georgia and Florida, attributes the sales decrease to lower same-store sales partially offset by $5.3 million of higher sales related to translating Canadian dollars into U.S. dollars.

Same-store sales for the fiscal year declined 6 percent, reflecting a 12 percent decline in the U.S. and a 1 percent decline in Canada, according to a company statement.

The company’s net sales for the 13 week-period, ended March 27, 2010, totaled US$63.6 million, a 29 percent increase compared to fourth quarter net sales of US$49.2 million in fiscal 2009.

The increase in fiscal fourth quarter sales is due to US$5.3 million of higher sales related to translating the sales of the company’s Canadian operations into U.S. dollars due to the stronger Canadian dollar and the 18 percent increase in same-store sales in both the U.S. and Canada, said the company statement. Birks & Mayors attributes the increase in same-store sales to the success of a winter sale in January and other special sales events during March, both of which generated significantly higher sales at lower gross margins and improved the company’s inventory position and cash flow.

Thomas Andruskevich, President and Chief Executive Officer, acknowledged that the company was impacted by the “difficult retail environment” in the U.S., but “encouraged by the performance” of its Canadian business. Andruskevich credited Birks’ sponsorship of the 2010 Vancouver Olympic Games with driving traffic and sales to the Canadian stores and giving Birks brand an international stage to present itself as a world luxury brand.

For the new fiscal year, he said that the company plans to continue to manage inventory levels, control expenses and limit capital expenditures while continuing to provide strong customer service. The company’s full-year financial results will be released after its annual audit in early July.
WDC’s Annual Meeting Promises ‘More than Lip Service’

With all industry eyes on Zimbabwe and its precarious commitment to becoming compliant with the Kimberley Process Certification Scheme, the World Diamond Council (WDC) is preparing for its seventh Annual Meeting in St. Petersburg, Russia, where industry leaders will discuss issues and formulate strategies regarding ethical trading and eradicating conflict diamonds.

Senior government officials and jewelry industry players from around the world are expected to attend the meeting, scheduled for July 14 and 15, 2010. The Diamond Chamber of Russia is hosting the Annual Meeting, which will include committee working sessions and the WDC Plenary Session with keynote speaker Boaz Hirsch, the current KP Chairman. WDC Chairman Eli Izhakoff asserts that “we will not be assembling in St. Petersburg simply to pay lip-service to the values upon which the organization was founded.”

A dedicated mini-website has been created with registration forms for the WDC Annual Meeting at: http://tinyurl.com/3989tf7

Indian University Adds HRD Antwerp Courses to Curriculum

HRD Antwerp has signed a cooperation agreement with the Jasani Department of Jewellery Design and Manufacture, S.N.D.T. Women’s University in India.

Under the agreement, HRD Antwerp will conduct Diamond Grading and Basic Gemology courses, which will become a central part of the school’s B.Sc curriculum.

Upon completion of the courses, students will receive a joint diploma issued by S.N.D.T. and HRD Antwerp, certifying their diamond grading skills and their basic gemology knowledge.

Former MJSA Communications Director Dies

Gerry Davies, former communications director of Manufacturing Jewelers & Suppliers of America (MJSA), passed away April 27 after a long battle with cancer. “He wanted to be a change agent to help improve the organization,” recalls MJSA President/CEO David Cochran.

A native of New Jersey, Davies was a 1980 journalism alumnus of Ohio Wesleyan University, and a longtime newspaperman. He was known for his generosity, intelligence, wit, and courage, according to the MJSA. Davies is survived by his wife, the Rev. Clare Fischer-Davies, and their two children.
Movers and Shakers

Freddy Hager Re-Elected as London Diamond Bourse President

The WFDB-affiliated London Diamond Bourse in the United Kingdom held elections earlier this month. The following officers were elected for a new term: Freddy Hager was re-elected president. Harry Levy was elected vice president, David Joffe was treasurer and Menachem E. Prager was elected executive member.

Others elected to the board of directors include Anita Bruce, Paul Koppelman, Lewis Malka, Cyril Ruttenberg, Daniel Seller and David Weinberg.

Gabaake G. Gabaake Named New DTC Botswana Chairman

The Board of Directors of the Diamond Trading Company Botswana (DTCB) has appointed Gabaake G. Gabaake as the Board Chairman of DTCB.

Gabaake, currently the Permanent Secretary in the Ministry of Minerals, Energy and Water Resources, takes over from Varda Shine who has served as the DTCB Board Chairperson since September 2007.

He started his career in 1986 in the Ministry of Minerals, Energy and Water Resources as an Assistant Hydrogeologist in the Department of Geological Survey. He has held various senior positions, including Director of Water Affairs; Deputy Permanent Secretary responsible for transport in the Ministry of Works and Transport; Permanent Secretary in the Ministry of Local Government.

Shear Minerals Welcomes Two New Directors

Canadian junior diamond exploration company Shear Minerals Ltd. has welcomed Julie Lassonde-Gray and Tanuja de Silva Skerlec to its board of directors. Additionally, Frank Agar, P. Eng. is retiring from the board. Lassonde has over 11 years of international experience in various financial and engineering fields. She is past President and CEO of Garson Gold Corp., director of Takara Resources Inc., Alexis Minerals Ltd. and Halo Resources Inc.

De Silva has over 15 years of industry experience with publicly listed exploration companies, including serving as CFO and Director. She brings a wealth of knowledge including the financing and promotion of diamond projects in various jurisdictions including: Canada, Finland and Sweden.

Agar will remain as an Advisor to the Board of Directors after 13 years of service. Shear currently has a portfolio of eight diamond projects, seven of which are drill-ready. Its advanced flagship (62.3% ownership) Churchill Diamond Project hosts 88 kimberlites in the Kivalliq region of Nunavut.

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