

**Speech by Gareth Penny, Group Managing Director, De Beers, at the Antwerp Diamond Conference,  
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***Why a Successful Downstream Diamond Industry is Important for Africa***

Distinguished Delegates & Guests, Ladies & Gentlemen.

I am grateful to the Antwerp World Diamond Centre for the privilege of addressing you today.

It is most appropriate that the theme of this Conference is 'Producers in Transition', as it is this dynamic - more than anything - that preoccupies our thinking in the diamond business today. Rightly so, as the integrity, security and sustainability of our raw material sources is paramount, not just to the continued growth of De Beers but to the sustainability and prosperity of the industry as a whole.

With all change, there is uncertainty and a fear of what the future may hold. That fear is magnified if we feel that the changes are beyond our control, that other players are determining our future. Given that these concerns have often been expressed most vocally here in Antwerp, it is good that representatives of the leading diamond producing countries and diamond mining companies are here today to share their vision for the future. For this reason I am particularly pleased to have this opportunity to tell you how we view this evolving dynamic and the role De Beers will play in it.

I am a great believer in looking ahead beyond the horizon and being bold in shaping the business to be fit for the future. I say this not because we at De Beers want or need change for its own sake, but because that change has a momentum and a moral imperative of its own.

Across the globe, from Russia to South America, from Canada to Africa, resource nationalism is a growing and powerful trend and diamonds are no exception. We are seeing the emergence, the establishment of Africa - the source of so many of our diamonds - as a major partner in the international diamond industry.

It is worth remembering that although De Beers is a global company, our heritage is in Africa. I am an African, and proud to be so. Africa is where our company was founded in 1888, where it has been centred ever since and from whence most of De Beers' diamonds have come - and still come.

It should not be any great surprise, then, that De Beers believes that a strategy that looks to strengthen communities and countries by drawing direct benefit from their natural resources is the right strategy for Africa today.

It is still all too common here in Europe, and in the United States, for Africa to be dismissed as the “hopeless” continent and one huge refugee camp. And it is certainly true that Africa still faces great challenges of poverty, disease, unemployment, poor education, housing and in particular, the challenge of HIV/AIDS.

More than US\$320 billion in aid from the developed world has poured into Africa over the past 40 years. While this aid is important to dealing with the immediate crisis, particularly HIV/AIDS, aid is not the long-term answer for Africa. As Nicky Oppenheimer has said: “Africa needs a hand-up, not a hand-out”.

However, despite the problems, the perception of Africa as a single continent in despair is ignorance at its worst. Twenty-five years ago there were only three democracies in Africa - Botswana, Senegal and Mauritius. Today, more than 40 African countries have held multi-party elections.

Good governance, the rule of law, independent judiciaries, a free press and a civil society sector growing in confidence are, despite the press coverage, increasingly the norm, encouraging vital foreign capital investment and reducing dependency on overseas aid.

As to the “hopeless” label, African continental economic growth last year was 5.8 percent, with the best performers closer to 7 percent. Compare that with Euro zone GDP growth of 2.7 percent and US growth of 3.2 percent.

In the diamond producing arena, we have seen some truly remarkable changes with Presidential elections in the DRC (for the first time since independence), in Sierra Leone and in Liberia. De Beers has been pleased - along with others in the industry - to assist in the re-establishment of Government Diamond Offices in both Sierra Leone and Liberia and we look forward to those countries becoming once more fully-fledged members of the diamond producing community.

We will all be delighted to welcome at this evening’s dinner Africa’s first women President, Her Excellency Ellen Johnson-Sirleaf from Liberia.

Angola, an extremely important diamond producing country now emerging from years of civil conflict, is increasingly active on the world stage, and bringing new focus and discipline to the development of its diamond industry from exploration through to distribution.

Then, of course, there are the established southern African democracies: South Africa, the home of De Beers, which has seen such a tremendous transformation since 1994, and where the government has shown considerable wisdom in the implementation of its policies in the diamond sector and in Botswana and Namibia where De Beers is privileged to work in partnership with Government, both models of fiscal prudence and sound resource management. In Tanzania too De Beers has also been in partnership with Government for many years in the Williamson mine.

All of this translates into a new determination by the African diamond producers to ensure their natural resources add maximum value to the benefit of their people with as much added value as is commercially viable. In southern Africa we call this “beneficiation”.

For the African diamond producing countries, beneficiation is not optional, not a passing whim motivated by political correctness, but an imperative, an absolutely essential and critical part of their macroeconomic policy designed to uplift their economies to provide education, jobs and healthcare for their people, and to make poverty history.

We embrace this imperative completely and with great energy. Today, De Beers with its partners contributes more than US\$4.6 billion dollars to African economies every year. De Beers, with its long African history, now has a further opportunity to make a really significant and sustainable contribution to the development and prosperity of the countries in which it operates.

But we don't embrace this out of some misguided enthusiasm or altruism. No, we embrace it because it makes good business sense *and* because it is the right thing to do.

De Beers has a long history of running successful business in Africa, and in a way that we find contributes to sustainable growth of the continent.

Today, we with our partners, employ more than twenty thousand skilled and hard working Africans citizens. Our operating companies in Africa are all run by Africans and our management teams increasingly reflect the racial and gender make-up of the countries in which our people live and work.

94% of Debswana's management are Batswana and more than 90% of Namdeb's employees are Namibian. And I am proud to say they are world-class and can compete head-to-head with any mining companies anywhere in the world.

Further, we are investing significantly in Africa today. As part of our US\$2.6 billion dollar capital investment programme we are building new mines and reinvesting in existing ones in South Africa, Botswana, Namibia and Tanzania. In addition, we are spending more than US\$100 million annually on exploration, principally in Africa and significantly in DRC and Angola.

When it comes to the Diamond Trading Company – the sales arm of the De Beers family, during the last 10 years we have been transferring skills to southern Africa to ensure that all the carats produced there can be sorted there, and not into basic valuation assortments, but into the full international presentation assortment that constitutes the DTC's global brand advantage. This is why today we are investing US\$83 million dollars to build the world's most state of the art diamond building in Gaborone. For De Beers it's good business.

This conference is focusing on the next stage of Africa's development in the diamond industry and that is about attracting further foreign direct investment, or FDI, through introducing value adding activities centred around diamond cutting and polishing.

When it comes to attracting FDI into the diamond polishing and manufacturing industry, clearly African countries come to this without the cost manufacturing advantage that characterised the development of new cutting centres in India, Thailand and China over the last thirty years.

There are real competitive challenges but, equally clearly, long-term government subsidies are not the answer. So, we all have a role to play in overcoming the challenges and turning this essential opportunity for Africa into a success.

Governments will need to create an environment conducive to attracting the global companies and their capital, technology, skills, knowledge and experience. They need to recognise that to do so you need a fair return on your investment and confidence that you have a long-term future there.

Perhaps more importantly, they need to maintain the conditions necessary for success: a competitive and predictable fiscal regime, an educated, motivated and affordable workforce, good infrastructure in terms of power, communication and transport, an efficient, effective and

supportive civil service, government policies to incentivise investment in training and technology, and, above all, a safe and secure environment.

De Beers will work closely with our Government partners to ensure diamond supply is appropriate, consistent and effectively provided to the successful companies that are likely to be supplied by the partner DTCs in Botswana and Namibia, and by DTC in South Africa.

We will also need to use all of our international experience to help support those companies in their aims to succeed in the globally competitive workplace that exists. These companies and countries must, as other cutting centres have before them, discover the particular segment of the diamond market that they can compete and succeed in.

It is just not possible, in this day of specialisation, to compete successfully in all segments of the diamond business. As a result, the African producer countries will continue to require, for example, vibrant, low cost Indian and Chinese cutting centres to process the volume of lower value rough which is not economic to cut in Africa.

Diamond manufacturing companies will need to invest their capital, their technology and most importantly their experience into these emerging centres while learning how to operate effectively in a environment. Further, like De Beers has done, we would encourage them to bring Africans into their global business so they can fully develop skills and knowledge.

Diamond manufacturing companies will need to put their well developed distribution channels to work for these new factories, as we collectively strive to overcome the inherent challenges, much as the emerging industry did in India some thirty years ago.

And now I want to turn to the traditional cutting centres and let me start by stating the obvious.

Africa is where our precious raw materials – gold, platinum as well as diamonds - largely come from, but we often, as an industry, taken our supplies for granted and given little or no thought to their places of origin. Without these African sources, our businesses would be much less significant and indeed many of us would not be here today.

We need a strong and stable Africa if we are to maximise future supply. Producing and selling diamonds today in or from a country in chaos, or worse conflict, is simply not an option. Major producers will not invest the billions of dollars required to bring new mines on stream without stability.

Nor will consumers buy a product where there are concerns about how or where it has been mined. Demand and the consumer love affair with our product is and must always remain our industry's top priority. In the end whether we are producers, governments, mining companies, diamond manufacturers or dealers we must always remember ultimate power rests with the consumer and they will determine the fate of our industry. So it is not altruism that should lead us to support enthusiastically the creation of new African diamond centres, but a sense of what is right, what makes good business sense, and a determination to create the conditions for the future sustainability of the business.

That is equally important to everyone in the diamond world, from Gaborone to Mumbai, Tel Aviv to Yakutia, from New York to Luanda and, of course, here in Antwerp.

The centre of gravity of the diamond business may be about to shift somewhat, but I believe that this creates real opportunities here in Antwerp and the other diamond centres.

I am on record that diamond activities must add value to survive, and that certainly applies in these new circumstances. The opening up of the producing countries with the development of new diamond centres increases those opportunities for diamantaires with the vision, creativity and willingness to invest money and effort in helping the producer countries to maximise their diamond resources.

Antwerp is one of the world's most important diamond trading centres and I see no reason why that should change. Rough and polished will continue to be traded in Antwerp and, given the great skills, knowledge and expertise that exist here, Antwerp is ideally placed to add real value to these activities.

Your extensive network of relationships and contacts with the established and developing consumer centres will continue to be invaluable. The position of Antwerp, too, as one of the main financial centres of the international industry is a great advantage and the resources of the Antwerp banking sector will be invaluable to developments in Africa.

There is a real opportunity here for Antwerp, Israel and New York for example, to become partners with the emerging production centres in Africa and maximise all of the business opportunities that come with a new emerging manufacturing base. I would go further though and argue that without the traditional cutting centres, these new cutting centres will not succeed.

Both diamond producers and producer governments must recognise the vitally important role that the industry here in Antwerp and, for that matter, around the world will play in helping bring the vision of an African diamond manufacturing industry to life.

Those willing to invest in this vision must see that the diamond producers, and particularly the producer governments are together in this with them, in a synergistic and mutually dependent relationship - a triangular relationship where all parties are focused on creating a sustainable, profitable and growing diamond mining and manufacturing industry.

This will not be easy and there will be bumps on the road.

However, over the last few years it is remarkable just how well the industry as a whole has met some of the challenges presented by a changing world.

Chief amongst these was the real threat posed by 'conflict diamonds' and it is of great credit to the industry - and those of our members who worked tirelessly on our behalf - that the Kimberley Process is now in place to secure rough diamonds from abuse by criminals and terrorists.

We learnt along the way that we could work effectively with governments and civil society to create a better world and a sustainable business.

The recovery of Sierra Leone, Liberia, Angola and the DRC is testimony to that successful collaboration and the role it has played in ending the conflicts.

It is particularly good, therefore, that joining us at this conference is the current Chair of the Kimberley Process, Karel Kovanda, of the European Commission, who has guided the Process with calm authority. In the presence of the South African Minister of Mines & Energy, the Honourable Buyelwa Sonjica, I should like to pay particular tribute to the Government of South Africa for its initiative in setting up the Kimberley Process, unique in the affairs of nations, and its most skilful Chairmanship in the difficult early days.

Credit, too, must go to Canada, Russia, Botswana and Angola for leading the 74 nations, the industry and the NGOs to agree an effective framework to protect diamonds from being used to fund conflict. We warmly welcome India as the incoming Chair and look forward to continuing to work together to make the Process both effective and credible.

Only two years ago at the G8 Summit, Africa was top of the world's agenda - many fine words were spoken and promises made on aid and debt relief. But now the world is focused on Iraq, Afghanistan, Global Warming and the US Presidential election.

In the diamond industry, we should be different. Africa really matters to us. We must show this to be true by working together in equal partnerships with the African diamond producing countries to build a new and thriving diamond sector that will enhance and grow our business wherever it may be based *and* that makes a real and lasting contribution to the wellbeing of the people of those countries that produce the source of our own wealth and comfort.

It is not a one way street and we, as producers, together with governments and the industry, all have a real and positive role to play.

In conclusion I have focussed on the following:

1. Resource nationalism is a growing international trend and diamonds are no exception;
2. Africa faces many challenges but has made significant progress in recent years-40 democracies and good economic growth;
3. Diamond producing countries have shown remarkable change- DRC, Sierra Leone, Liberia, Angola, South Africa, Botswana, Namibia and Tanzania;
4. For them, beneficiation is not a passing whim, but an economic imperative;
5. For us in De Beers, we recognize and support this imperative as we look to expand our successful mining operations into the local Diamond Trading Companies being established;

6. To achieve this vision, we will all have a part to play - producer governments, providing the right environment; De Beers and other producers - a steady and appropriate diamond supply; diamond manufacturing companies - capital, technology and know-how and traditional centres - access to banking facilities; and consumer markets - design and trading facilities;
7. Ultimately, the success of our industry will be determined by the consumer who will demand that diamonds do good;
8. Finally the Kimberley Process has shown that the diamond industry could lead the world in developing creative solutions for the betterment of Africa. We can do it again by making diamonds, the most value added natural resource on the continent.

Thank you for your time.

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