

**Third International Rough Diamond Conference**  
**11-12 February, 2008**  
**Tel Aviv, Israel**

**Introduction**

A delegation of seven officers of the government of Sierra Leone were invited to attend the Third International Rough Diamond Conference from 11-12 February 2008 in Tel Aviv, Israel. The delegation included the Vice President, Chief Samuel Sam-Sumana, the Minister of Agriculture and Food Security, Dr. Sam Sesay, the Deputy Minister of Mineral Resources, Mr. Abdul Ignosi Koroma, and the Director of Geological Survey, Mr. Mohamed B. Mansaray.

The Conference commenced on Monday 11<sup>th</sup> February with the opening of the Renovated Harry Oppenheimer Diamond Museum, located within the Israeli Diamond Industry complex in Ramat Gan. As the most advanced diamond museum in the world, museum designer Eliav Nachlieli said that the museum enables the visitor to follow the diamond on its fascinating journey "from the depths of the earth to the heart of the human being."

The tour of the museum was climaxed by the presentation of certificate of honour to the Vice President of Sierra Leone and other dignitaries.



## **The Third International Rough Diamond Conference**

The opening of the museum was followed in the afternoon by the Third International Rough Diamond Conference. The conference presentation was divided into various themes including:

1. Producers Strategies
2. Future Sources of Rough Diamonds
3. Governmental Policies Towards the Diamond Sector
4. Supply Strategies, Demand and Pricing Forecasts and
5. Financing and Valuing the Diamond Pipelines.

Several speakers presented papers on the respective themes. Ernest Bloom, President of the World Federation of Diamond Bourse (WFDB) speaking at the Opening Session, said that unless producers work in a symbiotic relationship with the rest of the industry to maximize gain from diamonds, global rough shortages in certain types of rough will worsen.

### **Session 1: Producer Strategies**

Bloom expressed concern at the global economic slowdown particularly in the USA, but called China and India the bright stars. He advises WFDB members to regard Africa, which produces 65% of global rough, as a future rough source.

Avi Paz President, Israeli Diamond Exchange (IDE) noted: "We just had a meeting with Alrosa President Sergei Vybornov and he has promised that they will start sending rough to Israel. I asked him to ensure that it is rough suited to Israel's manufacturing specialty - i.e., big sizes. We don't only want to be a trading center but a manufacturing center. Oulin has also just been appointed Alrosa's rough trading head and we have an excellent relationship with him so this is good news for us."

Paz added: "With regards to Israel's relationship with the DTC/De Beers during a meeting today with Varda Shine and Garth Penny, they pledged to continue to support us in the future. It is also important that other producers invest in marketing the diamond as a diamond not only the DTC."

### **Session 2: Future Sources of Rough Diamonds**

Several speakers presented papers on this subject including:

#### **Jan Katelaar**

Mining & Development Consultant Dr. Jan Ketelaar, who from 2002 to 2006 headed the UK government's program for development (DFID) in post-war Sierra Leone, said he is glad to see that the system DFID created still forms the government of Sierra Leone's core mining policy.

"Although smuggling continues in the country to some extent and child labour and poverty are still issues, Sierra Leone is attractive for investors with the

government preferring to attract small mechanized operations, which are easier to govern and manage than artisanal operations." He pointed out that the issue of illegal mining and smuggling cannot be dealt with by individual governments, but regionally and in a more organized way.

Ketelaar stated that legal diamond mining exports are the highest in 25 years, which he believes is a credit to the country. He added: "There is pressure by interested parties for Sierra Leone to follow beneficiation initiatives and there are preliminary policies regarding a diamond cutting bill, however the country will not insist on investors polishing rough locally at this stage."

**Eira Thomas:**

Stornoway's Diamond Corporation CEO Eira Thomas stated that in the long term, the company predicts a decline in rough supply while the demand for diamond jewelry is on the rise. "We agree with the prediction of WWW, according to which in the foreseeable future rough production will remain at the current level while demand for diamonds will rise significantly," Thomas noted.

Why prospect and mine in Canada? "We believe that Canada constitutes a central diamond resource. There has been less prospecting there than in other countries and there is no doubt as to its political and financial stability."

Thomas summarized: "We believe that Stornoway offers business opportunities and is at the right place at the right time."

**Karl Smithson, Chief Executive Officer - Stellar Diamonds:**

Diamond Geologist and MBA with 20 years African experience, including 8 in West Africa, and senior management positions with De Beers, SouthernEra and Mano River. He introduced Stellar Diamonds with the following bullets:

- ◆ Created in May 2007 as part of reorganisation of Mano River Resources
- ◆ Focused diamond mining and exploration company
- ◆ Active in Sierra Leone, Liberia, Guinea and DRC
- ◆ JV partners include: BHP Billiton, De Beers, Petra Diamonds, Trans Hex
- ◆ AIM listing planned for first half of 2008 (future TSX Listing under consideration)
- ◆ Financing of up to £10 million

The company's Corporate Strategy:

- ◆ Focus on advanced projects to generate cash flow in 2008
  - Bring alluvial project into production at Mandala, Guinea
  - Continue underground trial mining in Kono, Sierra Leone
- ◆ Continue key exploration projects
  - Bulk sample high grade kimberlites at Tongo and Bouro
  - Increase alluvial resource in Guinea

- Discover new diamondiferous kimberlites in Liberia and North DRC

Their West Africa Portfolio (15,112 km<sup>2</sup>) is illustrated below



He continued his presentation with the following:

- ◆ Sierra Leone has been peaceful since 2002, including two free and fair democratic elections, and a change of government in 2007 when President Koroma was elected.
- ◆ Liberia has been peaceful since 2004. Ellen Johnson Sirleaf was elected first woman president of Africa in 2006.
- ◆ Guinea has never been at war. A new Government has been appointed by President Conte.
- ◆ DRC is stabilising under President Kabila.
- ◆ Massive investment in the resources sector confirms these countries as acceptable and improving investment destinations.

### Sierra Leone - Overview

- ◆ Historical diamond production estimated at 50 million carats
- ◆ Current diamond production over 600,000 carats valued at \$144million
- ◆ Stellar holds licences in **Kono** and **Tongo**, the key diamond districts
- ◆ 970ct 'Star of Sierra Leone' found in Kono (world's 3rd largest diamond)

### Sierra Leone, Kono JV

- ◆ 49:51 JV with Petra Diamonds
- ◆ Underground bulk sampling underway
- ◆ Grades between 50cpht to 80cpht
- ◆ Diamond value of \$200/ct forecasted
- ◆ Production decision in 2008

### Sierra Leone, BHP Billiton JV (Tongo)

- ◆ BHP spending \$3.4 million for 51%
- ◆ 4 kimberlite dykes
- ◆ Grab sample grades up to 385cpht
- ◆ 1,200kg yielded 1,894 diamonds (2.05 carats)
- ◆ Grade estimate of over 500cpht
- ◆ Historical value reported \$175/carat

### Session 3 - Government Policies Towards the Diamond Sector

Sierra Leone Vice President H.E. Samuel Sam-Sumana stated that in a recent meeting with Israel Diamond Institute Group's (IDI) Managing Director Eli Avidar he informed Avidar that Sierra Leone aspires to strengthen its diamond industry. The Vice President noted: "The current atmosphere in Sierra Leone encourages foreign investment. In the past seven years we have enjoyed quiet in Sierra Leone. This was expressed in the peaceful transition of government last September."

"We are taking steps to restore growth in our country. We adhere closely to the Kimberley Process. All of the diamonds we export are conflict free," he stressed.



H.E. The Vice President delivering his speech

H.E. Sam-Sumana noted that diamonds constitute 90% of the country's revenue from export. He stressed that many people can be saved from poverty through the diamond industry. "Much depends on us and our ability to attract foreign investment and diamond traders. Sierra Leone recognizes the importance of private investors - they are in fact a significant part of our business plan. The aim is the creation of a supportive, stable and attractive business environment."

The Vice President referred to the government's reexamination of all of the country's mining agreements. "Our aim is not to arouse difficulties but to ensure that the agreements are fair and ensure that the people of Sierra Leone receive their rightful share."

"We encourage international companies to develop industries and mining in the country. The kind of enterprises that will create added value and job opportunities for our people."

H.E. Eugene Shannon, Minister of Lands, Mines and Energy of Liberia, in his presentation said: "Admittedly, Liberia's diamond mining production is still relatively small, at about 500,000 carats a year. I have just spoken to Moti Ganz with regards to using our recently signed MOU to open a cutting and polishing center in Liberia, which will serve as an economic hub in West Africa."

He added: "As a newcomer to the diamond industry, this conference is our opportunity to expose Liberia to the industry and to show that we are ready for business!"

In summary, the Minister noted: "We are working hard to encourage investors as we are still exploring for diamonds."

#### **Session 4: Supply Strategies, Demand and Pricing Forecasts**

Presenters included **South African Diamonds & Precious Metals Board CEO Louis Selekane**, who pointed out that about 50-60% of the country's clients are Israeli. He noted: "The Diamond Amendment Act focuses on value addition and the spin-offs are enormous. This has not deterred investors of whom there are many from all over the world including some of the biggest mining companies such as BHP and Rio Tinto. He hopes South Africa will become the diamond hub of Africa. South Africa produces 15-16 million carats annually, 90 percent of which is from kimberlite mining and the rest from alluvial."

As far as power shortages are concerned, Selekane said the Chamber of Mines has agreed with ESKOM to a 10 percent power cut and that is more than enough to function.

**Varda Shine, Managing Director of Diamond Trading Company**, in her presentation said that 2008 will be an important and exciting year for the diamond industry. "It will be a year full of challenges, but exciting, nevertheless."

"Less rough will reach traditional polishing centers such as Israel, Belgium and the US. This is because the rough will be polished in southern Africa. This refers to top-quality rough, merchandise that is economically viable for polishing in Africa. "But the companies that manufacture in southern Africa are in fact Israeli, Belgian and American."

Referring to Gareth Penny's presentation from the previous day she said: "Opportunities are opening up in new markets. In addition to China and India, Latin America will become a large market for diamond jewelry. We are already observing the effect of these markets on diamond jewelry." Shine noted that these economies will become significant factors in the diamond jewelry industry.

Shine stated that in the past there was only one parameter for the industry's success - the amount of rough that could be ensured. The issue of profitability came later. "The key to success and profitability is the diamonds' added value," she stressed. She noted that Israel has a heritage of taking initiative, particularly in the diamond industry. Israelis have the vision and the ability to keep Israel at the forefront of the global diamond industry.

In her lecture, Shine focused on the opportunity to turn a problem into an advantage. "If we maintain public demand, we can turn the shortage into success. At the end of the day, it all depends on the consumer."

In 2007, a 2.5%-3% increase in demand for diamond jewelry was recorded but in the year's last quarter companies tried to reduce inventories due to their fear of recession. As a result, products were sold at very low prices and sales dropped. "In fact, those who sold luxury products and did not lower prices did better."

She added: "How do you trigger demand in the end consumer? With innovation and creativity, forethought and a basic understanding of the consumer's needs. If we continue to raise the standards as private enterprises and as an industry we will succeed in promoting the downstream businesses."

Referring to Moti Ganz's speech, Shine said that the solution is not to push the diamonds to the stores, because diamond jewelry is sold for low prices, as we saw during the last holiday season. She claimed that there is no surplus stock in certain types of merchandise. She also noted that the gap between the diminishing supply of rough and the increasing demand for polished must be taken into consideration.

Shine noted that the DTC's pricing policy will be more dynamic in the coming years, with a constant eye to the market and prices. She stressed that rough prices will change more rapidly, mainly before large trade shows. However, she reiterated, the prices in all of the DTC marketing channels - in South America, Botswana, Namibia and London - will remain identical.

**Namibian Diamond Commissioner Kennedy Hamutenya**, in addressing participants, noted that Namibia produces some two million carats annually, which constitutes 50% of the country's revenue from export, 8% of the country's revenue from taxes and 20% of the country's GNP. He noted that these data indicate the importance of the diamond industry to Namibia.

"We recently conducted a campaign to increase Namibia's added value. Namibia enjoys stability, peace and a respect for human rights. We call for investors to come to Namibia. We use the revenue from diamond sales to build hospitals and schools. The diamonds mined in the country are the heritage of the Namibian people and they should be allowed to enjoy it," he said.

"We take our diamond image very seriously and we are dedicated to the Kimberley Process in which we have participated since the year 2000. We were recently elected vice president of the Kimberley Process for 2009 and in 2010 we will head the process," he noted.

He stressed that Namibia in particular and the entire industry in general must continue to demonstrate that the Kimberley Process is stable so that the consumer can be completely confident that the product we sell him is conflict free.

The Namibian Diamond Commissioner states that Namibia's rough diamond production is expected to reach 2 million carats in 2008 - at an average of \$300-\$400 per carat. More than 50% (500,000-550,000 carats) of Namibian annual diamond production is now through marine mining. This runs parallel to the technological challenges involved in marine mining. As onshore mining depletes, so offshore production will increase.

## **Session 5: Financing and Valuing the Diamond Pipeline**

### **Victor Van Der Kwast: CEO, ABN AMRO**

Reported that he is interested in expanding activities in Israel. "One of the reasons I am here," stated Victor Van Der Kwast, "is to examine ways to expand our bank's activities in Israel. We believe that one of the markets where we do not have sufficient connections is the Israeli market."

Victor Van Der Kwast spoke of the bank's sale and the acquisition of part of its activities by Bank Fortis. He noted that the ABN Amro brand will be maintained and the importance that the bank attributes to the diamond industry will not change either. "We have no intention of decreasing our commitment to the diamond industry," he stated.

**Lev Leviev Chairmen Leviev Group**, during his lecture addressed the issue of manufacturers' difficulties. "What will we bring with us from this conference? Rough producers, jewelers, manufacturers and bankers are all gathered here - but what links them all together is the manufacturer who undertakes the hardest load of purchasing the rough, paying cash and then selling it. The result is that manufacturers come and go," stated Leviev.

"Producers want maximum prices so they use new marketing methods. They conduct tenders. The people who pay the crazy prizes in tenders are suckers," declared Leviev.

Leviev noted that in the last five years prices of minerals have risen by 300% and more. But in the area of diamonds, prices only rose by lower double digits. Prices even dropped. He noted that there is no shortage of the other minerals but in contrast to the diamond industry, the other industries are properly structured.

"We developed a simple method. We developed a second and third tier of partners beneath us. Small and medium-sized manufacturers who manufacture for us and we sell the polished goods," he explained.

"The large producers do not need to trigger competition among the customers. They need to allocate different types of merchandise to specific customers. The producers need to understand that for their business to grow by hundreds of percents, like other worldwide markets, they must allocate rough for designated manufacturers."

Leviev called for all rough producers to invest in diamond advertising as a generic product. "The producers do not channel business in a uniform or sophisticated way. They must help the manufacturers with their work rather than compete with other manufacturers."

In some cases prices rose beyond 100%. The reason is that this merchandise is in the hands of only 50 to 60 companies and they protect it. There is no competition between manufacturers.

"All of the rough producers must sit down together and build a uniform marketing strategy. A strategy for distributing the merchandise so that manufacturers will no longer compete with each other. That way everyone will have much greater profits. That way they can take care of themselves," he added.

In response to a question posed by the Israel Diamond Industry Portal as to whether he was actually calling for a cartel of rough producers, Leviev stated that a cartel means marketing through a single channel. However, in this case he is interested in organizing the manufacturers in order to structure proper distribution of rough, with the ultimate aim of ensuring that the merchandise falls into the right hands.

Leviev added that the dollar exchange rate is currently causing harm to the Israeli economy in general and Israeli export in particular. He advised that the Bank of Israel lower the interest rate in order to stop the strengthening of the shekel.

### **Tour of Jerusalem**

The conference formally ended on Tuesday 12<sup>th</sup> February 2008. On the next day Wednesday 13<sup>th</sup> February 2008, the Sierra Leone delegation was taken on a tour of Jerusalem. At Jerusalem the delegation visited the New Holocaust Museum which consists of the Holocaust History and harrowing experiences of the Jewish people under the Nazis. The New Museum consists of the Holocaust History Museum-and within it the Hall of Names- the Museum of Holocaust Art, and the Exhibitions Pavilion. At the end of the Museum tour we were taken to the Memorial Building where H.E. the Vice President laid a wreath in memory of the victims.



The delegation left Tel-Aviv in the morning of Thursday 14<sup>th</sup> February. The next two days were spent in London with several discussions held with a number of investors wishing to invest in diverse sectors including the mining sector in Sierra Leone. On the final night in London, H.E. the Vice President was Guest of Honour at a Dinner Party held by a cross section of Sierra Leoneans resident in the UK.

### **Conclusion**

Members of the delegation benefited immensely from the experiences of the various aspects of the diamond industry discussed and presented at the conference. These include areas of producers' strategy, future sources of rough diamonds, supply strategies, demand and pricing forecasts, and financing and valuing the diamond pipeline. In the area of governmental policies towards the diamond sector, H.E. the Vice President, presented the policies of Sierra Leone towards the sector and informed the conference that Sierra Leone aspires to strengthen its diamond industry. He also noted that the current atmosphere in

Sierra Leone encourages foreign investment and that in the past seven years Sierra Leone has enjoyed peace, quiet and tranquility. This was expressed in the peaceful transition of government last September. "We are taking steps to restore growth in our country. We adhere closely to the Kimberley Process. All of the diamonds we export are conflict free" he concluded.

At private discussions held both in Tel Aviv and in London, the Vice President presented a peaceful image of Sierra Leone where a conducive atmosphere for doing business has been developed and he invited them all to come and invest in Sierra Leone. By and large the conference and the discussions held have presented Sierra Leone as a place to do business.

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