

Sorry, Mr. Oppenheimer. (*De Beers Consolidated Mines LTD.* chief Harry Oppenheimer must establish new contracts with Boris Yeltsin)

By Vladimir Kvint
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HARRY OPPENHEIMER and his son Nicholas were in Moscow early last September. The Oppenheims control De Beers Consolidated Mines Ltd. and were there for the opening of De Beers' first Moscow office.

De Beers, South Africa's giant mining company and marketer of diamonds, is the world's largest producer of diamonds. Through its Central Selling Organization cartel, De Beers has long controlled the prices and supply of raw diamonds to cutters and polishers around the world. Russia, the world's second-largest producer of diamonds (after South Africa), is important to De Beers.

According to top Russian officials, the Oppenheims were scheduled to meet with Boris Yeltsin, the prime minister and other top Russian officials, but at the last minute the appointments were canceled. The snub was apparently deliberate: It was a Russian way of telling De Beers it wanted more money for its diamonds than it had gotten in the past. (De Beers' spokeswoman denies appointments were scheduled but confirms that no top-level meetings took place.)

Not that De Beers needed reminding that it needs the Russians. Angola, one of the world's largest diamond producers, virtually stopped doing business with the Central Selling Organization in the late 1980s. De Beers' operatives have been scrambling to avoid losing the vital Russian diamond production.

In 1990 De Beers signed a five-year deal with Mikhail Gorbachev's government promising De Beers 95% of all Russia's raw diamond production. De Beers agreed to pay \$5 billion over the life of the deal.

But Gorbachev is out, and Boris Yeltsin apparently wants more. Under the Gorbachev agreement, the Russians receive from De Beers an average price of approximately \$68 per carat. Yeltsin figures he can do better. He knows that last year De Beers paid \$205 per carat for uncut diamonds it purchased directly from Yakutia, the eastern Siberian region which accounts for most of Russia's

diamond reserves and whose mines produce 98% of Russia's diamonds. The Yakutian diamonds were of higher quality, but not three times better.

Yeltsin has an out. De Beers' 1990 deal cut with Gorbachev says only that Russia must sell 95% of its uncut diamonds to De Beers. It says nothing of cut and polished stones. What Russia will probably now do is start cutting and polishing more diamonds rather than delivering them raw to De Beers.

Russia already has several diamond cutting and polishing plants. Three of them—in Smolensk, Moscow and the city of Barnaul, in western Siberia—have modern equipment and experienced cutters. Aware of the possibilities, several small Japanese, Israeli, Dutch and American firms are trying to create joint ventures with the Russian-cutting plants.

If the Russians are playing rough with De Beers, it's because they badly need foreign exchange. With their gold holdings dwindled, diamonds (together with platinum) remain Russia's major quick potential source of more hard currency. Squeezing more money out of De Beers is one way to get it. Adding value through cutting and polishing is another.

From the end of World War II until early 1990, the Soviet Union sold almost no diamonds in the 5-to-10-carat range, and no diamonds larger than 10 carats. When they were found, such treasures were kept in the Russian State Diamond Fund. Worth billions, the trove includes such mammoth stones as the 232-carat "Star of Yakutia" and the 332-carat "XXVI Congress of the CPSU."

As it begins to sell off its big stones, Russia will need to cooperate with Westerners. That's because the market is highly specialized and customers want their diamonds rough or cut and polished to their specifications.

On the prowl for large uncut stones is Maurice Tempelman. Working out of Paris and New York,

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Tempelman lines up a buyer for a large stone, locates the stone in Russia, then gives the Russians the designs for cutting and polishing the stone.

With most uncut stones, however, De Beers is still in control. Last year Yeltsin's government signed an agreement with officials from Yakutia (now Sakha). It says employees and managers of Yakutia's diamond mines and factories will retain ownership of 23% of the proceeds; Sakha/Yakutia's regional government and local authorities get 40%; the Russian government, and government funds,

such as the armed forces' social security fund, get 37%. De Beers figures it will end up as marketing agent for all three groups.

To further strengthen ties with the local government, De Beers agreed to help build a diamond cutting plant in Sakha called Polar Star.

Clearly De Beers is doing everything in its power to retain control over Russia's diamond output. But that big X in President Yeltsin's appointment book suggests that the Russians are going to be driving increasingly hard bargains.