



President



ECONOMIC DIPLOMATIC ADVISOR TO THE BELGIUM
 GOVERNMENT

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Open letter to the Honorable Minister of Mineral Resources Mr. Samson Gwede Mantashe

Dear Honorable Minister Mantashe

I am writing this letter in reference to your opening address at the 2019 Annual Investing in Africa Mining Indaba.

Firstly I would like to congratulate and thank you for the positive attitude in your opening address, of which builds confidence with all stake holders. The industry and government needs to reach out to one another and work with all stakeholders in order to develop the diamond and jewellery industry and in so doing, creating employment, as well as expertise and contributing to the country's financial well being and reverse the downward spiral of the industry.

During your speech you referred to the South African Diamond and Precious Metals Regulator (SADPMR) and stated that the main concern raised by industry was the red tape associated with the processing of operating licenses. While this is an issue, it certainly is only part of a more comprehensive set of problems that has resulted in the large scale shrinking of the industry over the past number of years.

The issues illustrated below are affecting the diamond and jewellery industry and in order to turn the tables around and create an industry that prospers, we need to address these issues jointly as government and industry.

- Beneficiation – as a members of the diamond and jewellery fraternity I totally agree with government that it is a major issue that needs to be addressed for the sake of future growth in the industry. The issues pertaining to beneficiation are complex and need to be dealt with jointly between government and industry in such a manner as to produce positive results in an organised, sustainable manner.
- Communication – due to the lack of constructive communication between industry and government, policy is implemented without the full knowledge of the industry, which leads to misunderstandings, breakdown in communication and failure of industry. A number of years back the diamond industry in South Africa employed 4,500 diamond polishers and cutters. This number has decreased to less than 300 today. In 2008 the number of licensed jewellery manufacturers was 3,200. In 2019 this number reduced to only 800. In the years gone by, South African jewellery manufacturers consumed 14 tons of gold, in 2015 this consumption was down to only 2 tons of gold.
- The local industry is trading at a disadvantage compared to foreign countries they are competing against for market share in South Africa, namely:
 - o Tax structures favouring importers rather than leveling the playing field.
 - o Over-regulation of the industry places a burden on small businesses resulting in higher overhead structures and taking the focus away from building the business.
 - o The inflow of imported diamonds and jewellery from markets like India and China due to the lack of parity tariffs. Currently it is estimated that 80% of the above, sold in South Africa is imported.
 - o Lack of access to funding.
 - o Crime, both commercial and general, is stopping consumers from buying jewellery, opening of new stores from and tourists from visiting.
- As referred to by yourself in your opening address, the burden of legal requirements (red tape) is very onerous upon industry.
- The issue of the industry falling under the Mining Charter needs to be debated as it is vastly different in structure and turnover to the mining industry
- Jewellers with a turnover of above R1 million have to comply with the ownership provisions of the Mining Charter 2018. Bearing in mind the cost of raw material, this threshold is very low.
- The following issues are also having a negative effect on industry:
 - o The quality of training is not sufficient to employ graduates without extensive further training.
 - o The art of diamond-cutting and polishing is a skill acquired over many years and cannot be taught overnight. The experienced trade people in this industry are being lost, to a great extent, without transferring skills.
 - o Lack of government involvement in making the industry more competitive on a global market.
 - o Lack of foreign investment.
 - o Volatility in the Rand, due to us being a Dollar based industry.
 - o Uncertainty in the economic and political atmosphere in South Africa.
 - o Access to funding for new entrants and smaller operators in the industry.

We have seen major development from competitors on the international markets where governments are working with industry to develop this sector of the industry. This has led to great success in creating both employment and revenue for the country. The assistance given by government to the diamond and jewellery industries overseas compared to lack of similar help in our market, puts us in a non-competitive scenario such as:

- o India – the Indian government is very active in supporting the diamond and jewellery industry and this has resulted in India now cutting and polishing 92% of the world's diamonds while not mining diamonds. Assistance is provided for both local markets and export markets. The Indian Government funds an export body that assists with marketing of Indian product on the world stage. Currently this industry employs between 800,000 and 1,000,000 people in India. In South Africa and the rest of Africa, we produce more than 60% of the world's rough diamond supply, yet there is no assistance in developing a value-added downstream industry locally. The result being that we export diamonds to be cut and polished overseas and then import them again for local consumption.
- o China – due to the Chinese government's involvement in the industry, we have seen a phenomenal growth pattern. From a zero base twenty years ago the industry has grown and employs 40,000 plus people now. In China, tax on the industry has been reduced from 36% down to 0% in order to develop and assist the industry in growth.
- o Korea – on the 19th December 2018 the Government has reduced taxes from 37% to 0% in the diamond industry to assist with the development of a local industry.
- o Dubai – 18 years ago the annual turnover was US\$ 200 million and the industry operated from a rented two-story building. Today their turnover stands at 29 Billion Dollars and is housed in one of the largest diamond centers, the Almas Towers, a 65 story building for the industry.
- o We can expand with more country examples such as Israel, Thailand and Turkey but one fact is very clear: when governments work with local industry to set a strategy for development, success is almost guaranteed.

Looking at the road ahead, it is my sincere belief that if government and the industry work together to develop a thriving local diamond and jewellery platform we will not only create employment but also handsome financial benefits for South Africa. We have many case studies from around the world that have been implemented abroad and this could form the basis of a brand new joint strategy for the local market.

Minister Mantashe, I call on you through this open letter, to put into practice, what we hear from government, regarding the development of the South African industry in general and help pave the road to success.

Myself and other industry leaders are available in assisting you and the Department of Mineral Resources to draw up a strategy and assist with implementation to assure a better future for all living in our country. The diamond sector worldwide has flourished when close cooperation between Government and industry prevails.

I look forward to hearing from you and assure you of my best intentions and total commitment to the building of a successful diamond and jewellery industry in South Africa.

Ernie Blom

President of the **World Federation of Diamond Bourses**
 Past President of the **Diamond Dealers' Club of South Africa**