



# COVID-19: CHALLENGES AND OPPORTUNITIES FOR THE DIAMOND MINING SECTOR IN ZIMBABWE.

*By Simiso Mlevu Posted June 19, 2020 In Blog, Campaigns*

## Introduction

The Coronavirus has been described as one of the worst world pandemics of the 21st century. As of mid-June 2020, the pandemic has infected about 8.6 million people causing the death of 456k around the globe. The pandemic has caused devastating harm not only to the health systems but to economies as well. Prices of commodities have dropped and markets closed as the world battles to stop the spread of the pandemic. The closing of international markets due to the pandemic has serious economic effects on less developed countries such as Zimbabwe which depends on exporting primary commodities such as diamonds. This article looks at the effects of the pandemic on the diamond industry. The article also discusses the opportunities that Zimbabwe can explore during this pandemic.

## The impact of COVID-19 on the Global Diamond Market

The outbreak of coronavirus has affected the diamond industry worldwide. The pandemic has forced the shutting down of some diamond-producing companies, jewellery manufacturers, polishing companies, and jewellery retail shops world over. A glance at diamond market trends shows that the year 2020 started well for the diamond sector. Alrosa, the world's largest diamond producer by volume reported improved customer sentiment across key markets for diamond jewellery and a recovery in prices for polished diamonds, adding that sales were 'quite robust' in December and January 2020. However, diamond trading declined sharply in February 2020 due to economic uncertainty aggravated by Covid19. As of 23rd March 2020, the Rapaport group reported that manufacturers and dealers across the globe were facing a severe liquidity crunch and sales to large markets like China and Hong Kong have been stopped. The diamond price per carat dropped by 1.6% in February as a result of a slowdown in diamond trading caused by the pandemic. The fall in price had a direct effect on the shares of smaller diamond miners such as Petra Diamonds (mining in Namibia and Botswana), reporting shares plunged by 75% since the outbreak in January.

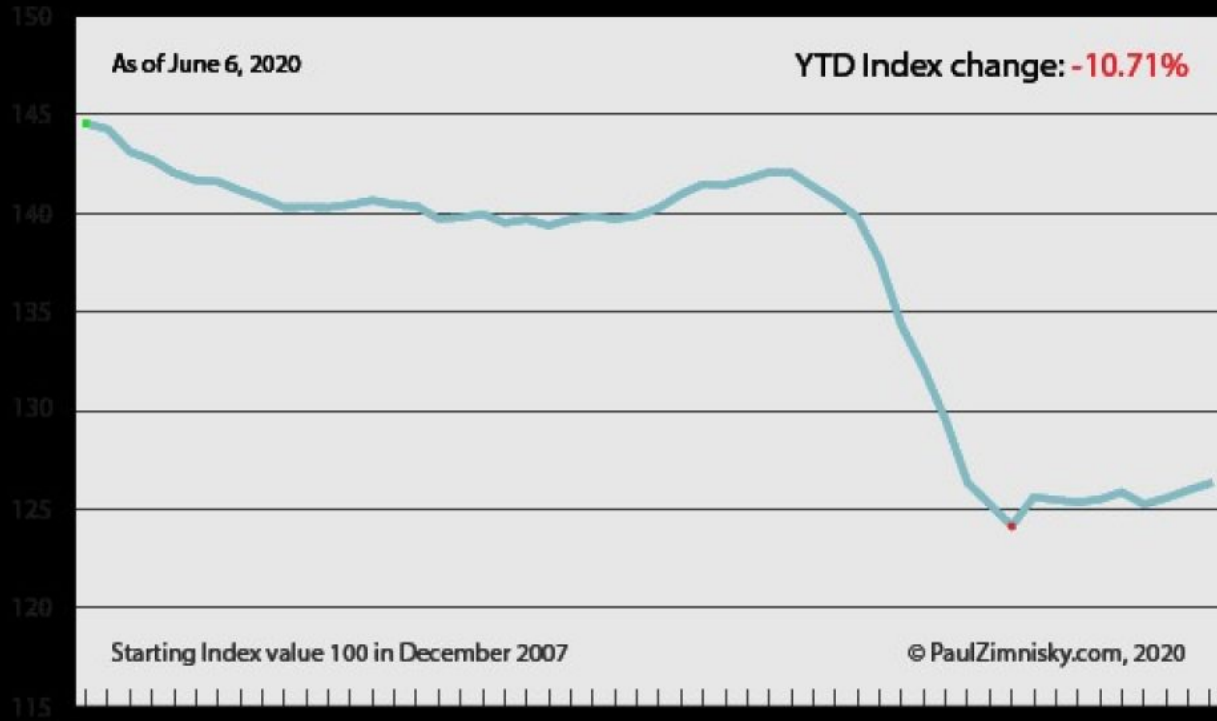
Alrosa, reported a 60% fall in March 2020 sales compared to the same time the previous year, citing the spread of Covid19 as the reason. The diamond company indicated that the virus also hit the diamond trade, which traditionally involves a lot of traveling, with border closures and quarantine measures across the world. The travel bans also forced companies such as De Beers, which once enjoyed a near-monopoly of gem production and marketing to close its retail outlets in Paris, London, Canada, Russia, Saudi Arabia and the United States of America to protect its staff and customers from the pandemic. As a result De Beers reported a sales drop of 36% from January 2020. From January 2020 to mid-May 2020, the global price index of rough diamonds fell from 145% to 125%, as the graph below shows:



▲ 0.36

1 Week	1 Month	3 Month	6 Month	52 Week	5 Year	10 Year
0.28%	0.36%	-4.40%	-9.69%	-13.11%	-21.07%	-2.83%

### Index Value - 52 Weeks



Notes:

Source GRDPI roughdiamondindex.com

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Despite the recent growth of online trading platforms such as Get Diamonds as the largest diamond trading platform, the industry has been rattled by conflict amongst the trading and marketing companies. Many suppliers moved their stock to Get Diamonds in protest against the Rapaport Group, publisher of the Rapaport Price List, and the parent company of the RapNet trading network and the Diamonds.net news portal after the group lowered prices by an average of 7% on its March 20 price list. The Rapaport group had lowered the price as a response to the dramatic economic slowdown experienced during the COVID-19 pandemic. Paul Zimmisky, a New York-based diamond analyst also noted that prices for rough diamonds have fallen by 15% – 20% over the past month due to coronavirus pandemic. However, producers and suppliers felt that the reduction should not be implemented so as to prevent a loss of confidence in the trade and maintain the illusion that prices have not declined. However, according to Martin Rapaport, chairperson of the Rapaport Group, prices have declined and this has been exacerbated by the increment of discounts to unprecedented levels that threatened the honesty of the Rapaport Price List that other diamond players wanted recalled.

Those who had bought and stocked diamonds could be feeling a sense of loss. The flip side is that the next six-to-twelve months could see a flood of bargains as jewelers are forced to generate cash by shifting excess stock. The reduction in prices has a ripple effect on the diamond-producing companies worldwide.

### **Impacts on the Zimbabwe Diamond industry**

The Zimbabwean government has a projection of attaining a 12 billion mining industry by the end of 2023. One billion is expected to be realised from the production and selling of diamonds. The government is also aiming to increase diamond production to 10 million carats by 2023. These projections are likely to be affected by the COVID19 as there is a sharp fall in diamond prices and demand. At the inception of the lockdown in Zimbabwe, the government directed businesses to close, except those that were designated as essential services to the economy. Diamond mining in Marange continued uninterrupted as it has been an essential source of foreign currency for Zimbabwe.

The diamond mining companies such as the Zimbabwe Consolidated Diamond Company (ZCDC) and Anjin continued operating during the lockdown. Due to continuous production, Zimbabwe will most likely have surplus stock of rough diamonds with no market to sell to. Manufacturers of polished diamonds are reducing prices to raise cash and minimize their inventory risk. The Zimbabwean diamond industry is going to be affected heavily as the international diamond industry is already in a recession due to Covid19.

“This year, the state-owned Zimbabwe Consolidated Diamond Company had planned 11 international gem auctions outside the country, including in Asian cities, to widen marketing options amid a market glut that has steadily made polished stones cheaper. The company planned to explore and penetrate the international market to boost sales volumes, according to acting Chief Executive Officer Rob de Pretto”. ZCDC has about 300 000 carats of diamonds which were due to be auctioned at the beginning of April but were affected by the Covid-19 pandemic, which has forced many countries to close borders and embark on lockdown to stop the spread of the deadly virus . The cancelation of the planned auctioning of the diamonds by ZCDC has worsened the company’s liquidity crises. This is witnessed by the company’s failure to pay its workers for more than five months now. There seem to be no end in sight to the workers woes as the company continues to plead for patience arguing that without selling diamonds it can’t raise the wages.

The impact of coronavirus on diamond prices has also affected the local diamond prices. When the government of Zimbabwe announced lockdown measures, most local diamond buyers failed to travel to Marange to buy diamonds from artisanal miners. This affected the price of artisanally mined diamonds. According to an artisanal miner in Marange, the industrial diamond price per carat was USD25 before the lockdown and during the lockdown, the price has dropped to USD10 per carat. The fall in prices has been triggered by restrictions on movement and liquidity challenges in the market.

### **Opportunities for the local diamond industry**

Whilst the pandemic poses a grave threat to the value of Zimbabwean diamonds on the international market, it also creates opportunities for the local diamond industry. The government has to grab this break to promote value addition and beneficiation of diamonds through local diamond polishers and jewelers. As the demand and price for diamonds on the international market have slowed down due to coronavirus pandemic, the solution to a global reduction in prices lies within the country’s policies. All along, Zimbabwe’s policies have been outward-looking, but the pandemic impels the country to craft policies that focus on internal value addition of diamonds.



Since the discovery of diamonds in Marange, Zimbabwe has lost billions of dollars due to failure to add value to its diamonds. Zimbabwe exports more than 90 percent of its industrial diamonds unpolished. The selling of the diamonds during this period will result in irrecoverable losses to the industry as global prices are likely to remain very low due to market recession. Unmined diamonds are natural capital to the economy of Zimbabwe. The diamonds price volatility induced by the coronavirus pandemic, coupled with the rising demand for synthetic diamonds has a long term effect on the ability of Zimbabwe to get maximum returns from its precious gems. There is a growing customer consciousness on preferring lab-made diamonds over natural diamonds which have long been associated with human suffering.

### Learning from the past

As the Zimbabwe economy is heavily dependent on exporting unprocessed raw minerals, including diamonds, the global price recession on diamonds means hard times ahead unless the government prioritizes diamond value addition. The effects of depending on exporting raw materials which are prone to price volatility and obsolescence can be explained by Patrick Bond below:

*In historical terms, the prices of primary commodities (other than fuels) have risen and fallen according to a deeper rhythm. Exporters of primary commodities, for example, fared particularly badly when financiers were most powerful. The cycle for an exporting country typically begins with falling commodity prices, then leads to rising foreign debt, dramatic increases in interest rates, a desperate intensification of exports which lowers prices yet further, and bankruptcy.*

It is time for the GoZ to rethink its development model and focus on value addition and beneficiation as well as economic diversification. With the global diamond market going through a recession, the government of Zimbabwe can capitalise on this period as a gap to reorganize mining in Marange and develop measures that reduce corruption and looting. Further, it is essential that Zimbabwe establishes linkages between mining and other sectors such as agriculture and energy. Mining is the largest consumer of energy and yet is doing nothing to promote renewable energy generation. Climate change is affecting agriculture resulting perennial food shortages. The coronavirus disruption forces governments to look inwardly and come up with holistic development plans where mining is linked to the economic sector.

### Conclusion



As the world continues the fight against coronavirus, Zimbabwe's ruling elites face a gigantic challenge of protecting the diamond industry which to date has only served their narrow economic interests. A focus on value addition of diamonds is most preferable as polished diamonds bring a higher value than unpolished ones. However, value addition and beneficiation seem less lucrative to the ruling elites who derive much benefits from selling diamonds in the rough. Cutting and polishing requires investments in skilled labour and equipment – something Zimbabwe's smash and grab elites are not prepared to invest in despite the country's comparative advantage with diamonds.

For the past decade, Zimbabwe has experienced an economic downturn as the ruling elites focused on diamonds with little attention to other sectors. Diamonds have precipitated corruption and bad governance by government officials in Zimbabwe. Inequality increased as extreme wealth of the ruling elites coexisted with extreme poverty of the masses. Important sectors such as agriculture have been left to die as political elites accumulate unexplained wealth from diamonds. The Covid-19 market disruption gives the Zimbabwe government an opportunity to diversify the economy and stop relying on mineral exports alone. With innovation and hard work, the government can revive other sectors it had ignored over the years due to its over-reliance on mining in general and diamonds in particular.

