



June 16, 2010 | Vol.25 No.610



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DIB EXCLUSIVE

Fourth Installment in the Zimbabwe
Diamond Series

Breaking The Zimbabwe Diamond Stalemate

Is there a way out of the **Kimberley Process (KP)-Zimbabwe** imbroglio that would do a reasonable amount of justice to all the sides involved? A hint to the answer, I think, can be found deeply hidden in the new **Partnership Africa Canada (PAC)** report, "Diamonds and Clubs." The report focuses on an "obscure" Zimbabwe body called the **Joint Operations Command (JOC)**.

The document that landed NGO activist **Farai Maguwu** in jail, which summarizes the activities of illegal diggers ("gjewas"), was reportedly addressed to the sub-national JOC. It is only recently that I started to fully comprehend the dominating, if not actually controlling, role the JOC plays in the **Marange** diamond area – or in most Zimbabwe diamond areas for that matter.

Who and What is the JOC?

The essence of the JOC has been described by **Stephanie Hanson** of the **US Council on Foreign Relations**. In 2008, Hanson wrote that, "as Zimbabwe's economic crisis has deepened, Mugabe has ceded significant power to the country's security forces – the Central Intelligence Organization, the military, and the police. Above all else, the president seeks to maintain his grip on power – following the time-tested axioma that the 'first rule of survival: you keep the security forces happy and you pay them'."

According to Hanson, since the 2002 presidential election, the state itself has become increasingly militarized. Military figures



(often referred to as “securocrats”) occupy high-level positions in civilian institutions. Researchers state that Zimbabwe’s cabinet’s authority has been superseded by that of the JOC, which is comprised of the heads of the intelligence agency, military, and police. The command makes national policy decisions.

JOC in Charge of Mopping up Illegal Diggers’ Operations

The brutal actions against illegal diamond diggers that led to so many deaths a few years ago were executed by orders of the JOC, or more precisely, by police and military units loyal to the JOC. The JOC only accepts one authority – that of President **Robert Mugabe** and reports directly to him. When the current prime minister in the unity government, **Morgan Tsvangirai**, was a candidate in runoff presidential elections with Mugabe, it was the JOC that harassed and threatened Tsvangirai supporters to such extent that the latter chose to drop out of the race. Mugabe ran unopposed and won.

It is this very same JOC that is still, apparently, in charge of a large part of Marange. In the unity government’s political unity agreement, the JOC was supposed to have been abandoned and should have ceased to operate. As PAC correctly points out in its report, the very document that got Farai Maguwu in such serious trouble basically proves beyond any reasonable doubt the continued involvement of the JOC in the Marange diamond fields.

As the JOC does not recognize the current prime minister (and police officers have said they wouldn’t salute the prime minister), PAC makes the suggestion that any diamonds controlled by JOC are basically conflict diamonds by the classical definition of the KP. These are diamonds controlled by powerful, armed elements that use diamonds to oppose the current, legitimate unity government and are solely answerable to the president.

Good Governance and ‘Follow the Money’

The role of the military and the police, apparently still largely controlled by the JOC, is not something the KP can change. Many of the key JOC individuals are involved in the country’s diamond sector – for example, the partner in the new **Chinese** diamond joint venture appears prominently on the list of JOC heads. At least one non-Marange mine is owned by a JOC member.

The best thing we can hope and strive for is to assure that the **income derived from Marange diamonds will benefit the people of Zimbabwe and will be used in a proper, transparent way.** This is the burden that can be placed on the mining joint ventures, where foreign investors have all the incentives to secure their investments and to ensure the integrity of their diamonds for export to the international markets.

The joint ventures that meet the KP minimum requirements in terms of control of the diamond assets, security, respect for good labor conditions for the workforce, respect for human

CIVIL SOCIETY versus KP MONITOR ABBEY CHIKANE

No, this is not (yet) a court case – but rather a battle being fought out in the court of public opinion. On the eve of the KPCS Intercessional Meetings in Tel Aviv, PAC’s Executive Director Bernard Taylor – on behalf of a coalition of conflict diamonds NGO’s – conveyed the following position:

“The KP Monitor’s report was unacceptable to civil society. Mr Chikane presented only partial facts (sometimes incorrectly so) with the apparent intention of obtaining from the WGM its approval for certification to go ahead. Contrary to his mandate, the Monitor does not appear to have thoroughly and independently assessed the situation in the 90% of the Marange fields not occupied by joint venture concessions- where the minimum requirements related to internal controls are not being met. Given the significant errors and missing information in the report, we can only conclude that at best, the report is incomplete and inadequate, and at worst the report was intended to mislead the WGM. This calls into question the Monitor’s credibility and impartiality.

“Furthermore, civil society is greatly concerned by statements made by the Monitor to the effect that his schedule and movements were controlled by the government and decided on according to the government’s priorities- to the point that the Monitor was not able to meet with stakeholders he wished to see. This, coupled with the incident involving the Monitor’s bags, indicates that the Monitor (any Monitor) is unable to operate freely and impartially in Zimbabwe at this time. This calls into question the viability of the monitoring arrangement in Zimbabwe.

“The KP Monitor has endangered the life of the main Zimbabwean civil society human rights activist working on issues relating to Kimberley Process controls and compliance in the country. The monitor’s actions can be directly linked to the arrest of Farai Maguwu. Zimbabwean civil society will not be able to trust the KP Monitor again. Moreover, during the conference call the Monitor implied that Farai was an ‘intelligence operator’ and intimated that Farai had set him up by handing over sensitive information. These claims are a poorly disguised attempt to distract the attention of the WGM from key issues in Marange. Civil society believes it is in particularly bad taste for the Monitor to imply that he is the victim or vulnerable party in this context, particularly given the position Farai is now in and the role the Monitor played in this. We believe that the Monitor should retract these comments and issue an apology.

“Civil society believes that the Monitor’s credibility and impartiality – and the viability of the monitoring arrangement in Zimbabwe – have been compromised. **We call on the WGM to ask the Monitor to resign from his position and to suspend the monitoring arrangement.”**

rights, etc., should be allowed to export their goods, and at least to finance the infrastructure of their mines and to enable the relocation of villagers to decent housing.

Above that, an additional burden can (or should) be placed on those companies on a continuing basis. It should be possible to monitor the flow of the monies earned by the government joint venture partner. **If it can be shown that these funds go to the unity government's budget and that their uses are agreed upon by Zimbabwe's parliament and unity government, then this is probably as far as an organization like the KP can go.**

These are measures that go far further than have ever been

taken in any other diamond-producing country. Then again, we have never encountered a diamond-producing country that invokes such negative sentiment among international government, civil society and consumers. The KP-compliant diamond companies operating in Zimbabwe and, specifically, the Marange area, should be allowed to export and, at the same time, the KP should go after every other diamond that is controlled by Mugabe's JOC cronies and make sure that these sales are stopped.

Will that solve the Zimbabwe problem? Probably not – but it seems that this is as far as the KP can go, even as a first step.

Zim NGO Director Illegally Seized from Remand Prison

Zimbabwe NGO activist **Farai Maguwu**, who is facing criminal charges for allegedly sharing illegally obtained confidential state documents regarding the **Chiadzwa** diamond fields with KP Monitor **Abbey Chikane**, was illegally seized last Friday from the **Harare Remand Prison**, where he was to be held until June 23 without bail, and moved by police to a prison notorious for its "inhuman" conditions, including torture. As of press time (Wednesday), Maguwu's law team is filing a bail appeal to the High Court.

Last Thursday, after a Harare magistrate denied bail to the director of the **Centre for Research and Development** (CRD), citing reasonable suspicion of the charges against him, Maguwu's lawyer, **Tinoviza Bere**, attempted to appeal the decision to the High Court the next day. However, the law team was forced to wait until Monday morning to start filing the Bail Appeal papers.

It appears that at some point last Friday, Maguwu was illegally and secretly taken from the Harare Remand Prison by police and transferred to **Mbare's** notorious **Matapi Police Station**, where he was eventually located the next day, Saturday, June 12.

"We have just received bad news from friends and relatives of Farai who we asked to keep an eye on the ground that Farai was taken illegally or without our knowledge or consent and without his consent from Harare Remand Prison to Mbare's notorious Matapi Police cells," writes Bere in a communication sent out on Saturday.

Bere feared that Maguwu was transported to the Matapi Police Station for purposes of interrogation and or torture "considering the complaints by Farai's brother of torture by some in the same team of investigators," writes Bere. Indeed, Maguwu's transfer was at the order of Detective Inspector Dowra, a known torturer facing various civil suits for prior human rights abuses, reports *SW Radio Africa*.

While Maguwu had been in the Remand Prison, Bere and others on the legal team had prevented any possible torture or harassment of Maguwu by being present at almost all times.

"We stopped the costly surveillance and visits because normally once remanded the Police no longer have control or access to the Accused. But Zimbabwe is not normal and so anything is possible," writes Bere. "We noted the exasperation of the police with our constant high powered presence at the side of Farai and are not surprised, (just infuriated) that they have acted as they did," he says in his communication.

However, as Matapi police denied Bere and Maguwu's family access to Maguwu during the course of the weekend Bere and his legal team were not aware of what was or wasn't done to him after the transfer.

"He was later moved to **CID Law and Order** for interrogation and we are yet to hear more details from the lawyers who are following him," Bere told *The Standard* on Saturday, and added that his client was supposed to have been examined by a medical practitioner.

As earlier mentioned, Maguwu's lawyers are filing Bail Appeal papers as of press time (Wednesday). "After the drama of the illegal removal and incarceration at the worst police holding cells in the country, the police confirmed that they were now investigating the allegations arising from Chikane's complaints against Maguwu," Bere told *SW Radio*.

Leading up to the current situation, Maguwu met with the KP Monitor on June 1st and subsequently turned himself into the police on June 3rd after his home and offices were raided by police. He first appeared in court on June 8 and was charged under the Criminal Law (Codification and Reform) Act Section 31 for allegedly publishing or communicating false information. Last Thursday, June 10th, he was denied bail on the grounds that he faces serious charges and was likely to interfere with investigations.

For more background on Farai Maguwu's arrest, read **DIB 609**: <http://tinyurl.com/39vvdz> and **DIB 608**: <http://tinyurl.com/2uvmm7z>



Farai Maguwu

'KP Monitor Does Not Deal With Stolen Material' says Abbey Chikane



As KP Monitor **Abbey Chikane** has come under intense public criticism by members of the KP Civil Society Coalition for his inadvertent involvement in the imprisonment of Zimbabwe NGO director **Farai Maguwu**, DIB felt it useful for the overall understanding of the situation to publish some of Chikane's recent comments during an interview with SW Radio Africa :

In response to being asked if he was aware of the accusation against him that he set up Farai Maguwu by revealing to Zimbabwe authorities "confidential issues" the two discussed during their meeting during Chikane's recent fact-finding mission, Chikane says:

"I'm not sure what he [Maguwu] is talking about unless he is admitting, which is a contradiction in terms, that he did give me a fraudulently obtained document which for legal reasons I had to submit it to the authorities because if I had not done that I would have become an accessory to this criminal act. But I have avoided even confirming that I did receive this document because in his statement, I think even given to the courts of Zimbabwe, he has denied that he has given me any document - so he seems to be contradicting himself because he says one thing to the court and he says something to the media which is going to make his case very difficult to defend."

When asked what it was that Chikane handed over to the Zimbabwe authorities and why he felt it necessary to pass on the information, Chikane says:

"...if someone tells me he has stolen a document from the Joint Operations Command (JOC) of any country – imagine if that happened to the United States, or in Israel, or in Russia, you

know what the implications are. And for him [Maguwu] to present me with a document that was stolen from the Joint Operations Command, I didn't think that my job includes among other things dealing with fraudulently obtained information. If he needed to share any information he would have done so without handing me, handing over a document that he had stolen..."

When asked whether Chikane verified the authenticity of the document and why he didn't go with it to KP authorities, Chikane answers:

"...you go to prison for 25 years in Zimbabwe if you are found in possession of a document of that nature. Having said that, I have actually incorporated this matter in my report which means I have informed the Kimberley Process - but at that particular moment there was no Kimberley Process to be thinking about, I was more concerned about periods of more than 25 years in prison in Zimbabwe if in possession of a fraudulently obtained document.

"I think the whole matter should be seen from the perspective that I was in possession of a stolen material and I did not want to be in possession of a stolen material. And secondly, it took me four days to assess and analyse the document and even went to the extent of establishing if there is an author of that document that I could meet. I even met the author of the document so I was able to confirm that it is an authentic document... You don't walk around with a stolen document when you know that you are being followed..."

In response to being asked how Chikane would have known that the Zimbabwe authorities would have found out that he and Maguwu discussed the document and whether he was aware that the document detailed human rights abuses and torture by the same people Chikane handed the documents to, he answers:

"...My job requires me to monitor what is happening in Zimbabwe . The manner in which you obtain information should have nothing to do with me, he [Maguwu] should have just come to me and said so many people were tortured, so many people were relocated, so many people have been involved in this activity or the other and especially if it is written by you it's even better. What made it worse is that when I asked him if I could quote him he said he doesn't want to be associated with that document.

"...I have always known that if I were to be in Zimbabwe, I wouldn't be surprised that someone would want to know what's happening at the hotel where I am, in my bag, in my suitcase and every movement - who I communicate with on my phone and so on, I've always known that and for me to be given a

document that has to go into my bag, I knew that someone was going to find it. And had it been found in my briefcase - exactly the same way that my other emails were found in my suitcase, can you imagine what that would have meant to the Zimbabwean government and to me in particular?"

When asked if he understands the magnitude of the situation that Maguwu now finds himself as a result of Chikane turning over the document, he says:

"...I think this is a lesson that anybody, whether it's in NGOs,

industry or government, the KP monitor does not deal with fraudulent material. Stolen material, I don't deal with stolen material. I think that is one lesson that not only Mr Maguwu, anyone else who has to submit any information to me, any documentation to me, it should not be a stolen document. There are many options of using a stolen document, you rephrase, you rewrite, you put it in your own words, you find other ways of presenting such information - you don't present to me the original document that has been stolen from the Joint Operation Command of the police force. You don't do that and that's one lesson that anyone who deals with me will have to know."

Mbada Holds \$150 Million Rough Tender

Mbada Diamonds in **Zimbabwe**, which the **KP Monitor** had considered 100 percent compliant with the KP minimum requirements, held a tender for a large part of its rough diamond stockpile in May. Some 14 diamond companies attended the viewings, which allowed them to make a bid on any of 12 different lots.

Among the bidding parties were a few major **DTC sightholders**, some ex-sightholders and a mix of **Dubai-** and **Antwerp-**based firms. Most of the participants represented either **Indian** or **Lebanese** diamond-trading companies. Also among the bidding parties were the two Dubai-based firms to whom 12 shipments had been made in April with KP certificates of contested validity, as they lacked the signature of the KP Monitor.

According to the terms of conditions of the tender, the selling party is responsible for securing the required export documentation. It has been made clear to all the participants that no exports will be made without a valid KP certificate that also includes the KP Monitor's approval.

According to well-informed sources, the average price obtained at the tender was \$40 per carat, which is considerably higher than the \$25-\$35 range usually attributed to the Marange goods. If all lots were sold, something we don't know, this would have generated some \$150 million for the Mbada joint venture. A quantity like this is bound to have an impact on the prices of the near-gem diamonds in the market.

A controversial clause in the terms of conditions requires buyers to agree that if they purchase diamonds from Mbada Diamonds, they commit themselves to not buying any illegally mined diamonds in Zimbabwe. This is to avoid a possible contamination of Mbada goods through mixing with contraband goods.

All the bids were made in U.S. dollars and payment must also take place in this currency. A telegraphic payment directly into the bank account of the seller must be received by a bank in Zimbabwe before any of the goods will be delivered. However, as of press time, it was clear that the KP Monitor lacks authority from the **KP Working Group on Monitoring** (WGM) to sign KP certificates for the exports. It therefore seems the sales are not going to be completed.

In the meantime, dealers were informed by **Charles Russell LLP**, the **London-**based law firm representing **African Consolidated Resources** (ACR), that their client claims that it owns the rights to those diamonds. It refers to court decisions to this effect, though there are still appeals against those decisions outstanding. Therefore, the Charles Russell letter warned prospective bidders, it is its "client's legal position that the sale has not been conducted in accordance with Zimbabwe law and the orders of its courts and that you will be incapable of receiving good title on the basis that the diamonds have come from our client's claim area."



Chairman of Mbada Diamonds Robert Mhlanga in his office at the Mbada Head Office in Harare

Zim's Illegal Diamond Dealers Say Supplied by Army, Govt Officials

Former dealers of illegal foreign currency in **Bulawayo, Zimbabwe**, are now turning to diamonds since supplies flow easily and regularly from high-ranked officials in the government and army, reports *The Zimbabwean*.

When the government introduced a multi-currency system in Zimbabwe last year, illegal foreign currency dealers turned to a new profession of selling precious stones smuggled from the **Chiadzwa** diamond fields by "fat cats in and outside government," an anonymous source told the newspaper.

While illegal diamond dealers face extended jail time if caught, they claim that their connections to suppliers in the **Zanu-PF** government, police and army keep them immune from consequences.

Dealers also claim that most of their diamond-buying clients hail from **Lebanon, Nigeria, South Africa, Namibia** and **Botswana**, one such dealer told *The Zimbabwean*.



DTC Warns Clients against Buying Marange Goods until KP Authorized

In a letter sent out to its **Sightholders** last week, the **Diamond Trading Company (DTC)** strongly cautions its clients against purchasing any diamonds originating in **Marange** until they receive **Kimberley Process (KP)** authorization for their export and sale.

"In the last few days, unconfirmed reports have suggested that there will soon be an export of goods originating from Marange," says the letter. "As you know, the Kimberley Process (KP) has appointed **Abbey Chikane**, as Special Monitor to supervise and approve the export of goods from this region. Mr Chikane reports to the KP's **Working Group on Monitoring (WGM)** and he is not permitted to allow Marange exports without the authority of the WGM," continues the letter.

"We have been informed by the Chair of the WGM that no authorisation has yet been given to validate the export of goods from any source in Marange. Until this is forthcoming any purchase of goods from Marange will, therefore, be deemed in contravention of the Kimberley Process Certification Scheme," cautions the letter.

The DTC continues to "strongly advise" Sightholders to "use caution and discretion" when purchasing goods "throughout the region" and, specifically, to be sure that no such parcels contain Marange goods.

"Finally, extensive media coverage of events in and around Marange indicates that commercial relations with Zimbabwe present a challenge to the reputation of individual businesses and of diamonds in general. We, therefore, advocate heightened awareness and proper due diligence in this regard," concludes the letter, before promising to keep clients abreast of further developments.



Varda Shine

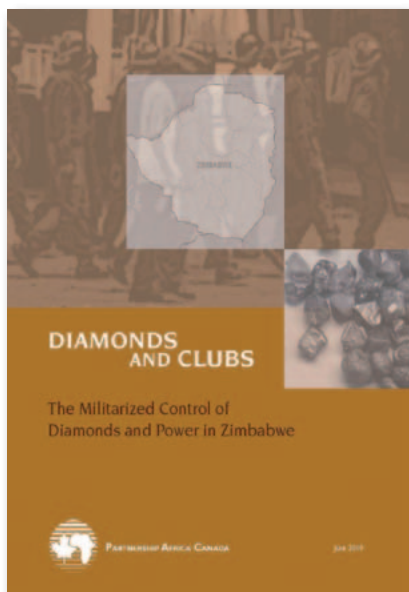


Zimbabwe Govt. has Stockpiled 4 million Carats of Diamonds

The government of **Zimbabwe** has stockpiled more than four million carats of diamonds that were mined at the **Chiadzwa** diamond fields between 2006 and last month, reports the state-owned *The Herald*.

Included in the stockpile, estimated to be worth between US\$32 million and US\$1.7 billion, is the diamond parcel of 129,000 carats belonging to **African Consolidated Resources**. Those diamonds are currently being kept at the **Reserve Bank of Zimbabwe** until ACR's rights dispute with the courts is resolved.

The 4,580,234,88 carats (as of the end of May) can now be certified for export, as Kimberley Process (KP) Monitor **Abbey Chikane** has found the country to be compliant with KP's minimum requirements.



PAC: Diamonds Used by Zim Govt. Players in Internal Power Struggle

A new **Partnership Africa Canada** (PAC) report titled "Diamonds and Clubs: The Militarized Control of Diamonds and Power in Zimbabwe" details the direct involvement of **Zimbabwe** President **Robert Mugabe** and his inner circle, specifically members of the **Joint Operations Command** (JOC), in the country's diamond sector, and how the country's natural resource has been misused to enrich these government players to the detriment of the national treasury and citizens.

Furthermore, asserts the report, **ZANU-PF** hardliners are "leveraging their stranglehold of the diamond resources" to destabilize the unity government, undercut any major political and economic reform it may champion, and bring down any semblance of democratic governance in Zimbabwe.

The report also details the smuggling, greed, and government-sponsored repression and human rights violations in general as well as specifically related to the controversy in the country's contested **Marange** diamond fields.

As such, PAC makes a series of recommendations in the report to deal with the crisis in Zimbabwe and in the **Kimberly Process** (KP), which the NGO criticizes for losing direction and credibility amid - or because - of Zimbabwe's political defiance and

humanitarian collapse related to its diamond crisis.

Among the recommendations to the KP is the immediate suspension of Zimbabwe, a need for a new, broader definition of "conflict diamonds," an investigation into River Ranch, a diamond mine in the south of Zimbabwe, and a widening of the KP's monitoring and enforcement mandate to include cut and polished stones.

The report also makes recommendations to Zimbabwe's unity government, the government of Mozambique, the diamond industry and the United Nations Security Council.

"Zimbabwe is not the only country failing to meet some or all of the basic requirements asked of diamond producing nations by the KP. But Zimbabwe sets itself apart from the others because of the government's brazen defiance of universally agreed principles of humanity and good governance expected of adherents to the KP. As such Zimbabwe poses a serious crisis of credibility for the KP, whose impotence in the face of thuggery and illegality in Zimbabwe underscores a worrisome inability or unwillingness to enforce either the letter, or the spirit, of its founding mandate," cites the report.

While KP Monitor **Abbey Chikane** found the country to be in compliance with KP's minimum requirements, PAC disagrees, claiming that the country's efforts to meet KP requirements have been "a deception and a charade" calculated to "confuse and soften the criticism of some KP members as they congregate in **Tel Aviv** in June."

To read the report in full, click here: <http://tinyurl.com/329td48>

Global Witness: KP's Missteps of Zimbabwe Bring a Return of 'Blood Diamonds'

In a new report titled "Return of the Blood Diamond: The Deadly Race to Control Zimbabwe's New-Found Diamond Wealth," **Global Witness** takes aim at the **Kimberley Process Certification Scheme** (KPCS) for repeatedly failing to act effectively to halt violence and corruption in **Zimbabwe's Marange** diamond fields.

Ahead of the KP Intersessional meeting in **Tel Aviv** next week, Global Witness, like **Partnership Africa Canada**, uses its report to call on international governments to suspend Zimbabwe from the KPCS until it can prove its diamonds aren't "bankrolling" violence and abuse. Instead of suspending Zimbabwe for flagrant breaches of its code, claims Global Witness, members of the KPCS have settled on "a weak compromise agreement," which Zimbabwean authorities have repeatedly breached.

"[Mines Minister Obert] Mpofu and his cronies have demonstrated a flagrant disregard for the scheme's rules. They seem intent on pursuing their violent, self-serving exploitation of the country's diamond wealth. Nobody should be under the illusion that this is about anything other than lining the pockets of Zanu PF and their allies, who



are being squeezed by economic sanctions," asserts Elly Harrowell of Global Witness.

The NGO insists that Zimbabwe must immediately withdraw the army from the diamond fields, hold rights abusers to account and suspend imports and exports of rough diamonds until the diamond sector meets international standards. Global Witness also campaigns for the suspension of the introduction of new investors into Marange until the legality of current joint ventures can be established and effective oversight implemented.

In its report, Global Witness reveals how Zimbabwe's **Zanu PF** political and military elite are pilfering the country's diamond wealth for their own personal and political means through a combination of state-sponsored violence and the "legally questionable" introduction of joint-venture companies.

According to the report, the government's current joint venture companies, **Canadile Miners** and **Mdaba Diamonds**, awarded mining rights in the name of improving conditions in Marange, are directly linked to the Zanu PF military and political elite responsible for the abuses.

"The investment deals have been done with scant regard for legal process against a background of violence and intimidation, and are dangerously lacking in transparency. This leaves the door wide open for state looting and corruption, and raises the very real possibility of internationally certified diamonds financing renewed political violence in Zimbabwe," says Harrowell.

To read the report in full, click here: <http://tinyurl.com/3xev54b>

BOTSWANA

Botswana Miners Union Calls for Independent Appointments to Debswana, DTC Boards

Members of the **Botswana Mine Workers Union** (BMWU) have voiced their dissatisfaction with what they describe as a conflict of interest of having government representatives sit on both the boards of **Debswana** and the **Diamond Trading Company Botswana** (DTCB).

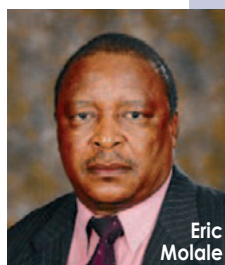
They claim that by having government agents, in particular **Eric Molale**, Permanent Secretary to the President, and **Gabaake Gabaake**, Permanent Secretary to the Ministry of Minerals and Energy and Water Resources, on the boards of Debswana and DTC Botswana, their judgment is clouded when dealing with issues relating to employee welfare since they also represent the interest of government and, to some extent, of **De Beers**, reports *The Botswana Gazette*.

In a recent meeting with the Minister of Minerals, **Dr. Ponatshego Kedikilwe**, and the Minister of Labour and Home Affairs, **Lellhoganolo Siele**, union members discussed their discontent at having to seek government intervention for board decisions they find unfavorable from the same people who made the decisions.

"These people are senior civil servants and government's advisors of the diamond trade; on one hand they take decisions as Board members, then we have to appeal to them for the review of problematic issues, it is not right," say a source who attended the meeting, as cited by *The Botswana Gazette*.

The union is calling for the government to appoint independent people to the Debswana and DTC Botswana boards, who, they say, can represent the interest of the country without jeopardizing government's stake.

According to newspaper report, Minister Kedikilwe recognized the conflict of interest and said that the government would resolve the issue.



SOUTH AFRICA

South Africa's April Diamond Production Jumps 117%

South Africa's diamond production jumped 117 percent in April compared to a year earlier, signifying that miners have revived production, which had been temporarily halted or cut back during the global recession. While, a year ago, **De Beers** cut its production by 49 percent at its mines in **South Africa, Botswana, Namibia** and **Canada**, industry sources believe that diamond prices are currently firming and are slowly inching closer to reaching pre-crisis averages.

As such, diamond production topped the list of South Africa's April gains in minerals and metal production, followed by a 104 percent rise in manganese ore production for the month, a 26 rise in iron ore production and a 42 percent rise in chrome ore, according to **Statistics South Africa**.

South Africa's total mine production rose for the fourth consecutive month, up 2.7 percent. Industry conjecture is that increasing industrial activity in **India** and **China** may have driven up commodity prices, encouraging miners to boost output, reports *Business Day*.

However, the country's gold output fell 6.2 percent compared to April 2009. Production of other commodities such as platinum group metals, nickel and coal also fell, according to the statistics.

Revenue from mineral sales for March 2010 totaled 22.8 billion rand (US\$2.9 billion), up 6.7 percent from March 2009.



DRC

DRC Govt. Eyes 35% Stake in Future Mining Projects

The government of the **Democratic Republic of Congo (DRC)** is creating a new mining-licensing model aimed at retaining at least 35 percent in all future mining projects in an effort to increase the benefit from its natural resources.

The new guidelines, created by DRC's Ministry of Mines and currently awaiting government approval, will serve as the basis for all future mining contracts involving the country's state-owned mining companies and private companies, according to an official with the state-run mining-licensing body, **Cadastre Minier**.

The guidelines also stipulate that private mining companies must pay state mining companies at least 2.5 percent royalties on minerals produced and pay signature bonuses equivalent to 1 percent of the value of mineral projects, the government official told *Dow Jones Newswires*. Private mining companies operating in the country also must adhere to the requirements of **Extractive Industries Transparency Initiative (EITI)**, the 2002 global initiative that increases transparency over payments by companies to governments and to government-linked entities, as well as transparency over revenues by those host country governments.

Sources say that since the late 1990s, the DRC's state-owned copper/cobalt mining company, **Gecamines**, has been privatizing most of its mining projects to international mining companies and holds only minority stakes in most mines in the country.

Other state mining companies in the DRC include gold mining company **Okimo** and diamond-mining company **La Société Minière de Bakwanga (Miba)**. DRC's diamond production in 2009 was estimated at 28 million carats valued at \$336 million.

First Half 2010 DTC Rough Sales Up 80% Over 2009

De Beers has completed its final sight for the first half of 2010 with a sale of about \$500 million. According to analyst Des Kilalea, total DTC sales in the first half of 2010 came to \$2.5 billion, which is almost 80% higher than the comparable period of 2009. "While the period is vastly better than 2009, it is worth noting that these first half year sales' total is still one of the lowest on record in 10 years."

The analyst attributes this to the fact that the market has not returned to its former health because major economies such as the US are still growing slowly. While China and other Asian markets exhibit robust demand for diamond jewelry, the largest market in the world is the U.S. where sales, though better, are still slow.

According to Tel Aviv-based Tacy Ltd. research, the demand will stabilize at 80% of the 2007 year level – and the record figures of the past will not be repeated, unless prices increase dramatically. The diamond cutting centers will export 25%-35% more polished this year than in 2009, but this reflects mostly pipeline replenishment (restocking) and not higher sales at the retail levels.

RUSSIA

VTB Lends Alrosa \$500 Million to Refinance Debt

Russian investment firm **VTB Capital** has provided diamond conglomerate **Alrosa** with a two-year loan of \$500 million to refinance short-term loans taken out with Russian banks, reports *Interfax*. The loan terms were not disclosed.

Alrosa said at the beginning of this month that it planned to reduce its total debt down to \$3.5 billion, compared to a former planned target of US\$3.7 billion, due to due to the company's "windfall profits" of 7.8 billion rubles (US\$245.6 million) for the first four months of this year.

Alrosa's net debts stood at about \$5 billion at the end of the first half of last year. The company's debts are derived from large-scale projects involved in a transition to underground mining, for which the company had raised considerable credit resources prior to the economic crisis. During the crisis, however, prices and demand for diamonds dropped, and Alrosa had to leave the market and sell only to **the State Precious Metals and Gemstones Repository (Gokhran)**. As a result, it had to finance its ongoing operations with credits.

In related news, Alrosa has opened the order book for RUB 15 billion (\$476 million) in bonds, according to *Interfax*.

VTB Capital, **TCB Capital** and **Renaissance Capital** are organizing the placement and are taking bids for RUB 8 billion (\$254 million) in five-year 21st series bonds at interest of 8.25 percent to 8.75 percent, and RUB 7 billion (\$222 million) in five-year 23rd series bonds at interest of 8.75 percent to 9.25 percent.

Orders close on June 22 and the placement is due on June 24, reports *Interfax*.

Belgium's May Import, Export Figures Rise, Showing Higher Prices Per Carat

Both the value and volume of **Antwerp's** rough and polished diamond exports and imports increased for the fifth consecutive month, according to May statistics released by the **Antwerp World Diamond Centre**. Belgian polished diamond exports in May climbed 4.0 percent in volume to 629,985 carats as compared to May 2009, but jumped 39.0 percent by value to \$920.5 million. Similarly, for the first five months of the year, although polished diamond exports rose 2.3 percent in volume to 2.95 million carats compared to the same period in 2009, there was a 29.3 percent rise in value to \$4.26 billion.

In polished diamond imports, Belgium bought 612,563 carats in May, a slight 3.3 percent rise in volume from May 2009, while there was a significant 44.7 percent jump in the diamonds' value to \$733.5 million. For the January-May period, polished diamond imports increased 3.6 percent in volume from a year earlier to 3.21 million carats worth \$3.97 billion, a rise of 28.5 percent in value.

Belgium exported 11 million carats worth of rough diamonds in May, a rise in volume of 64.8 percent and a rise in value terms of 51.8 percent. For the first five months of the year, Belgium exported 56.3 million carats worth US\$4.5 million, a 98 percent jump in volume and a 98 percent jump in value compared to the same period a year ago.

In rough diamond imports, Belgium bought 8.74 million carats of rough goods in May worth \$705 million, rises of 63.7 percent in volume and 73.6 percent in value, respectively from the same month last year. In the first five months of this year, rough diamond imports jumped 65.8 percent compared to the same period of 2009 to 50.4 million carats worth \$4.0 billion, a significant rise in value of 101.4 percent.

Statistics demonstrate an increasing demand for polished goods, which the AWDC says could be attributable to restocking at wholesale and retail levels after a considerable period of destocking due to the global recession. As for rough diamonds, both import and export figures showed high increases, with the rise in dollar terms indicating that dealers and manufacturers have faith in the continuing rise in prices of rough goods, according to the AWDC.

The **United States** was the leading export destination of Antwerp's polished exports in May, purchasing 103,888 carats worth US\$386,197,474, a 2.40 percent fall in volume but a 52.15 percent rise in value compared to May of the previous year. **Hong Kong** followed with polished imports of 98,279 carats worth US\$89,212,489, a fall of 28.75 percent in volume but a rise of 3.17 percent in value.

Belgium's Polished Diamonds						
Jan-May 2010			Jan-May 2009		Change %	
	Carats	US\$	Carats	US\$	Carats	US\$
Exports	2,953,862	4,256,348,917	2,887,439	3,290,984,491	2.30	29.33
Imports	3,209,923	3,974,493,867	3,097,510	3,093,713,118	3.63	28.47

May 2010			May 2009		Change %	
	Carats	US\$	Carats	US\$	Carats	US\$
Exports	629,985	920,477,776	605,587	662,319,457	4.03	38.98
Imports	612,563	733,476,586	593,092	506,821,816	3.28	44.72

Belgium's Rough Diamonds						
Jan-May 2010			Jan-May 2009		Change %	
	Carats	US\$	Carats	US\$	Carats	US\$
Exports	56,279,911	4,481,039,737	28,416,615	2,262,630,982	98.05	98.05
Imports	50,393,356	4,005,478,493	30,394,359	1,988,543,779	65.80	101.43

May 2010			May 2009		Change %	
	Carats	US\$	Carats	US\$	Carats	US\$
Exports	11,010,451	857,234,988	6,680,958	564,553,110	64.80	51.84
Imports	8,740,691	705,202,672	5,339,095	406,258,665	63.71	73.58

Belgium's Polished Diamond Exports by Country								
Jan-May 2010			Change 2009		May 2010		Change %	
	Carats	US\$	Carats	US\$	Carats	US\$	Carats	US\$
U.S.	377,651	1,281,693,678	-1.88	45.65	103,888	386,197,474	-2.40	52.15
Hong Kong	571,265	846,143,970	-2.80	36.18	98,279	89,212,489	-28.75	3.17
Israel	215,769	442,260,444	15.82	50.49	51,741	93,536,029	22.27	26.37
Switzerland	214,377	336,222,237	-4.34	4.01	41,741	61,716,490	74.60	129.68
India	395,953	259,221,200	8.75	43.78	75,931	54,989,877	8.28	60.75
UAE	295,591	246,137,810	-18.53	-3.30	93,765	63,828,497	19.26	28.24
China	116,565	150,327,706	27.97	68.23	18,766	27,414,395	-19.87	8.39
U.K.	61,328	109,636,938	43.18	11.84	7,049	29,187,067	20.28	101.41
France	78,048	92,483,553	17.88	20.17	13,748	17,516,111	10.61	11.44
Italy	163,816	90,892,588	14.36	13.61	35,944	20,446,957	21.97	31.69
Others	463,500	410,328,793			89,131	76,432,391		
Total	2,953,862	4,256,348,917			629,985	920,477,776		

Source: Diamond Office at Antwerp World Diamond Centre (AWDC)

NRF Uncertainty Impacts U.S. Consumers in May

After two months of increased spending, U.S. consumers tightened their wallets in May, suggests the latest **U.S.** retail sales released by the **U.S. Commerce Department**.

The data shows that U.S. retail industry sales (excluding automobiles, gas stations, and restaurants) for the month fell 1.4 percent seasonally adjusted over April and increased 2.7 percent unadjusted year-over-year, according to the **National Retail Federation (NRF)**. The U.S. retail sales in May (including automobiles, gas stations and restaurants) decreased 1.2 percent seasonally adjusted over April and increased 6.3 percent unadjusted year-over-year.

"May retail sales results represent a reminder of the uncertainty that still exists in the economy," said NRF President and CEO **Matt Shay**. "The road to recovery is paved with caution as consumers remain concerned about key indicators such as employment and housing." During May, U.S. consumers also faced a sharp fall in the stock market due to renewed concerns about the European economy.

Though middle-class shoppers cut back, sales reportedly rose at **Saks, Inc.** due to strong demand from high-end consumers, reports *The Wall Street Journal*. Saks Inc. Chairman and Chief Executive **Stephen Sadove** told the paper that "There's no question that the consumer is skittish, but it's not just one big mass of consumers."

While not as robust as in previous months, May retail sales in some sectors did report slight increases, reports the NRF. Sales at furniture and home furnishing stores increased 1.0 percent seasonally adjusted month-to-month. Sales at sporting goods, hobby, book and music stores increased 0.4 percent seasonally adjusted from April. Sales at electronics and appliance stores increased 0.6 percent seasonally adjusted from last month. Clothing and clothing accessory stores sales decreased 1.3 percent seasonally adjusted.



SEC Charges Miami Man in \$40 Million Diamond-Related Ponzi Scheme

The **U.S. Securities and Exchange Commission (SEC)** has charged **Miami, Florida**, resident **Luis Felipe Perez** for conducting a \$40 million Ponzi scheme with funds primarily raised from investors to support purported jewelry businesses and pawn shops.

He reportedly turned himself in to authorities last Thursday and has pleaded not guilty. As of press time, Perez's bail has been set at US\$1 million, reports *The Miami Herald*.

According to the SEC lawsuit, Perez, known as "Felipito" according to sources, arranged "no-risk" loan agreements with 35 investors and promised to pay them guaranteed annual returns of 18 percent to 120 percent through monthly interest payments. Perez falsely told investors that their investments were collateralized by **diamonds**, and even led some investors to believe they were beneficiaries on his life insurance policy without disclosing that the policy had lapsed, according to the SEC press release.

Rather than financing his jewelry businesses, the SEC alleges that Perez misused new investor funds to pay prior investors, and that he stole at least \$6 million to fund his extravagant lifestyle, which included a \$3.2 million home, \$1 million worth of jewelry, and exotic vacations that cost him \$200,000 a year. Perez also misused investor money to travel by private jet, buy expensive artwork, and make \$100,000 in political contributions, claims the SEC. According to the SEC's complaint, filed in **U.S. District Court for the Southern District of Florida**, Perez began his scheme in 2006 when he began raising money from investors, many of them Hispanic, under the guise of investments in his purported jewelry businesses. Perez was the president and sole owner of **Lucky Star Diamonds Inc.** and **Luis Felipe Jewelry Design Corp.**, neither of which ever had any employees. Both companies have now ceased operations.

Perez told investors their money was being used to finance pawn shops in **New York** from which he earned 5 to 10 percent returns per month that could be passed on to his investors. However, according to the SEC, Perez had no dealings with pawn shops and never provided financing to them. Perez also allegedly told some investors that diamonds from the pawn shops had specifically been set aside for them as collateral securing their investments. In some instances, Perez placed them in a bank safety deposit box to which he and the investor had access. However, unbeknownst to investors, the diamonds were fake.

According to the SEC's complaint, Perez's scheme collapsed in June 2009 when he was no longer able to recruit new investors.

The SEC's complaint charges Perez with violating anti-fraud provisions of the federal securities laws. The SEC seeks a permanent injunction, sworn accounting, disgorgement of ill-gotten gains with prejudgment interest, and a civil money penalty against Perez.

In addition to the SEC's civil charges the U.S. Attorney's Office for the Southern District of Florida has filed criminal charges against Perez.

Michael Hill Scaling Down its U.S. Stores

Jewelry retailer **Michael Hill** is scaling back its **U.S.** presence by closing eight of its 17 stores in the country. The remaining nine stores will remain open to continue positioning the Michael Hill brand in the U.S., says the company. All nine stores, located within the greater **Chicago** area, will be refurbished to bring them up to the company's latest global concept, reports the *New Zealand Herald*.

The **Australia**-based jeweler entered the U.S. market in July 2008 when the company bought 17 stores from bankrupt **Whitehall Jewellers** for a reported US\$7 million. The majority of stores were in Illinois, mainly around the greater Chicago area, while three were in or around **St. Louis, Missouri**.

At the time of acquisition, the company said that it did not expect the stores to achieve profitability for several years, but wanted to test its retail model in the country despite economically challenging times.

The company operates stores in **New Zealand**, **Australia** and **Canada**, and says that revenue from its U.S. stores comprised US\$7.5 million of the company's total sales of US\$244 million in the six months to December 31, 2009 reports *New Zealand Herald*. Operating losses in the U.S. of US\$6 million are expected for the 2009-2010 financial year, says the paper.



Christie's London Jewels Sale Earns \$6.6 Million

Christie's earned US\$6.6 million at its **Jewels: The London Sale** last Wednesday, which achieved 79 percent sell-through rate by lot and 85% by value. The top lot was a rectangular-cut D, VS1 diamond ring by **Bulgari**, weighing 14.85 carats and which sold to an anonymous buyer for US\$1,095,382, or \$73,800 per carat.

The second-highest lot, which sold for US\$487,326 to a private Asian buyer, was a circular-cut E, VS2, 7.07-carat diamond ring by **Cartier**. Other pieces by the jeweler also sold well, including a rectangular-cut F, VVS1 3.08-carat diamond ring, which sold for US\$97,176 against its pre-sale estimate of US\$58,000-US\$73,000.

"The London sale encompassed a wide variety of jewellery ranging from the mid-9th to the 21st century. Fine quality diamonds, natural pearls and signed jewels were especially sought after, exemplified by the Belle Epoque aquamarine necklace by **Koch**, which realised five times its pre sale estimate," says **Keith Penton**, Head of Jewels Christie's London.

According to Penton, **Chinese** buyers were said to be at the forefront of much of the bidding, following the success of the previous **Hong Kong** sale. Other buyers were part of the **UK** and **European** trade.



South African Jeweler Creates Diamond-Studded Soccer Ball for World Cup

South African jeweler **Yair Shimansky** has created a life-sized World Cup soccer ball encrusted with 6,620 white and 2,640 black round brilliant-cut diamonds, totaling 3,500 carats. The ball is valued at

20 million rand (\$2.6 million) and weighs about 2.2 kilograms, says the jeweler, who told *Business Day* that the ball "was not designed for any goal kicking practice."

Shimansky is currently in talks with a **European** soccer club about selling the Shimansky World Cup ball to them as a 2010 commemorative display piece for their club, reports *Business Day*. For the duration of the FIFA World Cup, Shimansky's seven national stores will each exhibit an exact crystal replica of the ball in their store windows. Once the World Club tournament concludes on July 11, each replica will be auctioned with the proceeds being given to each regional store's chosen charity.

IDCA Honors Gitanjali as 'Retailer of the Year'

The **Indian Diamond and Colorstone Association** (IDCA) recently honored Indian retailer and manufacturer **Gitanjali Group** as "Retailer of the Year" during the association's 26th annual Gala Awards Night, held in the Venetian hotel during the **JCK Las Vegas Show**.

Mehul Choksi, Gitanjali chairman and managing director, and **Nehal Modi**, chief executive officer of **Gitanjali USA Inc**, received the award, reports *National Jeweler*. Gitanjali operates the **Rogers Jewelers** and **Samuels Jewelers** chains in the United States under the corporate name Samuels Jewelers.

The IDCA, which pays tribute to several organizations and individuals in the industry during its annual Gala Awards Night, also named **Pam Mortensen**, senior vice president of fine jewelry at retailer **J.C. Penney Co.**, "Doyenne of the Year," reports *National Jeweler*.

The "Pioneer of the Year" award went to **Manhar Bhansali**, managing director of **M.R. Bhansali and Co./Goldiam International Ltd**.

Shore Gold: Star-Orion Project Contains Letseng-Type Diamonds

Diamond exploration company **Shore Gold** has discovered that 26 percent of all diamonds exceeding 2.7 carats in size from its **Star-Orion South Diamond Project's** underground bulk sample are **Type Ila diamonds**, the same type of high-value diamonds produced at **Gem Diamonds'** profitable **Letseng Mine** in the **Kingdom of Lesotho**.

Type Ila diamonds, are rare and account for probably less than 2 percent of all natural rough diamonds in the world. Only a small number of active diamond mines regularly produce Type Ila diamonds.

While Letseng is a low-grade kimberlite (1.5-3 carats per hundred tonnes), it is highly economic as a result of its high diamond price (US\$1,753 per carat in Q1 2010). Letseng accounts for some 30 percent of the world market share of diamonds greater than 25 carats and has produced some of the

largest gem-quality diamonds recovered in the last five years, including the 603-carat **Lesotho Promise**, the 493-carat **Letseng Legacy** and the 478-carat **Light of Letseng**, which are all Type Ila diamonds.

A recent study on plus 2.7-carat diamonds from Star shows that the deposit has a similar proportion of Type Ila diamonds to Letseng, reports Shore Gold.

Shore Gold says that the proportion of Type Ila diamonds in the Star Kimberlite is similar to the proportion of Type Ila diamonds in Letseng. However, the grade of Star is some seven times greater than Letseng. It has been stated that Type Ila diamonds are usually either top white or brown in color. Shore Gold confirms that high-value, white Type Ila diamonds do occur at Star Project. Moreover, the company says that a recent diamond valuation exercise has shown that the Star underground bulk sample produced 34 diamonds valued at \$5,000.

"The presence of a significant proportion of Type Ila diamonds greatly increases the potential for the recovery of large (plus 100 carat), high-value diamonds at Star. Study of the Star diamond evaluation parcel shows that it contains both top white octahedral diamonds (Type Ia) and a significant proportion of Type Ila diamonds, some of which are top white in colour. The presence of these two high-value diamond groups (octahedra and Type Ila) greatly strengthens the future potential production diamond pricing at Star," says Senior Vice President Exploration & Development, **George Read**.



Letseng's Legacy 3

African Diamonds Set to Drill 3 Orapa Kimberlites

Diamond exploration company **African Diamonds** is to commence a US\$1 million drilling program at its three wholly owned kimberlites in the **Orapa** kimberlite field, **Botswana**. The purpose of the 800 reverse circulation drill hole program at its **AK8**, **AK9** and **BK5** kimberlites is to accurately demarcate the size of each kimberlite and to estimate microdiamond and heavy mineral grades, says the company.

The close to surface/outcropping areas of the AK8 and AK9 kimberlites, where the extensive data already exists, will be the principal drill targets. BK5 is at an earlier stage of exploration but has significant potential, notes the company.

The AK8 kimberlite is estimated to contain 20 million tonnes of kimberlite to a depth of 300 meters. It is a two-lobe, 5-hectare kimberlite pipe whose diamond grade is estimated to be between 5-10 carats per hundred tonnes (cpht). AK9 is a 3-hectare kimberlite pipe estimated to contain 11 million tonnes to a depth of 250 meters. The diamond grade is estimated to be between 5-10 cpht with upside potential. The BK5 is recorded as having a surface extent of 2.7 hectares. Much of the kimberlite is at the surface and historical records suggest a grade of around seven cpht.

Based on the drilling results, African Diamonds says it will then be able to move to engineering and financial studies to determine whether the kimberlites can be developed as open-pit mines on a stand-alone basis or as feeder mines to the AK6 mine, a 60/40 joint venture between **Lucara Diamonds** and African Diamonds, which is 25 kilometers south of **Debswana's** Orapa diamond mine, is set to come on stream in the third quarter of 2011.



African Diamonds AK6

Argyle Diamonds Adorn Most-Expensive Barbie Doll

American toy company **Mattel Inc.** has partnered with jewelry designer **Stefano Canturi** to create the world's most expensive **Barbie**. The collectible doll is adorned with customized diamonds sourced from **Australia's Argyle Mine**, and bears a price tag of almost US\$550,000.

An Argyle pink diamond is the centerpiece of Barbie's necklace, surrounded by 3.00 carats of white diamonds. The doll also sports a Cubism-inspired emerald-cut diamond ring. The be-dazzled Barbie was reportedly created to coincide with the opening of the **Barbie Basics Collection** in Australia.



GJEPC's India International Jewellery Week Promotes Local Downstream Sector

In an effort to strengthen international recognition for **India's** downstream gem and jewelry sector, the **Gem & Jewellery Export Promotion Council (GJEPC)** is presenting the country's first **India International Jewellery Week (IIJW)**, to be held in **Mumbai** during August 15-19, 2010.

IIJW is an initiative that attempts to provide an international platform for India's budding and leading jewelry designers and design houses to unveil their jewelry collections to the world's jewelry market. Aspects of the sector, including local examples of jewelry design, craftsmanship and technology, will be showcased during the week.

According to the GJEPC, the IIJW will provide extensive media and PR coverage for local designers and their creations. India's top models and choreographers are also expected to help display jewelry collections. There will also be opportunities for participants to be interviewed and promoted across print, online, radio and electronic media.



IGI Launches New Consumer-Focused Website

The International Gemological Institute (IGI) has created a new website aimed at educating consumers considering fine jewelry purchases. The new site, www.igionline.com, features end-user resources including information on the 4Cs of diamond buying and colored stones, an engagement ring buyer's guide, a monthly birthstone calendar and IGI's precious metal calculator, which assists consumers in calculating the melt value of their jewelry based on current fix prices for precious metals.

Also featured on the site are a News & Events section, an eStore, which offers informational gemstone and jewelry-related products, and information about IGI's consumer services, including gemstone identification reports, appraisals and **LaserscribeSM** as well as insurance discounts available on jewelry accompanied with an IGI report.



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1 year subscription - US\$590 * Individual issues of DIB are available for US\$25

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