Diamond Industry Annual Review

republic of angola 2005

Editorial

During the war in Angola, a prominent diamantaire challenged one of the NGOs campaigning against conflict diamonds. "All you will achieve," he said, "is to make it easier for corrupt governments to get a larger share of the diamond wealth. Your campaign will not help poor people at all." The challenge was a sobering one. The best response at the time was an argument that smuggling and war would not help poor people either, and that getting the horse before the cart – establishing peace first – was an essential precursor to good governance.

Certainly, however, none of the NGOs that have campaigned against conflict diamonds support a return to the bad old days of secrecy, corruption and mismanagement in the diamond industries of Africa. That said, with the end of the wars in Sierra Leone, Liberia and Angola, there are clearly some positive changes in the management of diamond resources. In Angola there are new investment codes, new environmental protection laws, and there are efforts to improve the access of Angolans to diamond mining opportunities.

But there are serious problems as well. Although some improvements have been noted over the past year, the government's record on corruption and transparency remains poor. The justifiable expulsion of foreign diamond workers was badly handled. The effort to abolish artisanal mining defies the lessons of history, is unlikely to succeed, and shows that new policies are needed for the artisanal sector, so that more people can benefit from the country's most accessible natural resource. Three years of peace is enough time for an oil-rich, diamond-rich government to have made wider social investments in the diamond areas and to have produced development policies that are more supportive of Angola's artisanal miners.

This second *Diamond Industry Annual Review* focuses on the role diamonds play in Angola's social development, and considers how the investment from a growing diamond industry is being deployed. Angola is likely to produce diamonds worth close to $900 million in 2005, mainly from the formal sector, resulting in much greater government revenue. It will also mean more direct investment from the private sector in local infrastructure and social projects.

Development in Angola's diamond industry is taking place in a changing political climate. 2005 marks the 30th anniversary of Angolan independence and the third year of real peace following the ending of the civil war. Barriers to development can no longer be blamed on conflict, although reconstruction and capacity-building start from very low levels. The shattered and depopulated interior must be rebuilt and resources must be devolved from Luanda to the provinces.

The elections for the presidency and for deputies to the National Assembly, scheduled for September 2006, will be the most important test of lasting peace. Elections, however, are not likely to radically reshape the Angolan political landscape this time around. The constitution is not being changed and agreements made under the Lusaka Protocol – the peace agreement reached with UNITA in 1994 – still stand. Holding elections will require considerable preparation. Voters have to be registered – in a country where many of those living outside the cities have neither identity cards nor personal documentation, and where even the size of the population is unknown. There is also the problem of returning internally displaced people and refugees, and of Angola's large foreign population.

But the most important question for the future has to do with the funding for, and the quality of reconstruction in Angola. Problems in reaching agreement with the IMF have dominated the donor agenda. In March 2005, following a confrontation with the government over a $600 million oil windfall, the Africa director of the IMF, Abolaye Bio-Tchane, said there had been some resolution of the issues. This could open the way to a long-awaited donor conference for reconstruction funding.

Angola is also looking to private funding for post-war reconstruction and development, and some is already in the pipeline in the form of a recent oil-backed $2.25 billion loan from Standard Chartered Bank and bilateral agreements signed with the government of China, during the visit of China's Vice Premier, Zeng Peiyang in February. Angola and China had agreed on a credit line of US$2 billion in March 2004 with Eximbank of China, to be paid in oil at a fixed price.

The question now is how much the rebuilding process will benefit the majority of Angola's people, most of whom live in abject poverty. The development of roads, bridges, power and water supplies will benefit the entire country, but the provision of education, health care, hospitals, housing, and jobs are needed if the interior is to develop and if the wretched conditions there are to improve. These same questions apply to the diamond sector, the only major industry functioning in the interior. This *Annual Review* assesses the benefits that a growing diamond industry is bringing – and is not bringing – to the process of reconstruction.

The *Diamond Industry Annual Review* for Angola is one of three diamond industry surveys prepared by Partnership Africa Canada and its partners in Africa. *Annual Reviews* covering Sierra Leone and the Democratic Republic of the Congo are also being produced. In those countries, government cooperation has been readily forthcoming. Despite perceived shortcomings in the management of the diamond industry and disagreements over how these should be presented, those governments have seen the *Annual Review* as a contribution to better and wider understanding of an important industry.

In Angola, however, government cooperation has been poor. One government official said about the first *Annual Review* in 2004, "We do not recognize the country you have described." That might be because the government did not grant most of our requests for interviews. The same happened this year. The country and the industry we have described might be more recognizable to government, and the *Annual Review* would certainly have benefited, had there been greater dialogue.

the Diamonds and Human Security Project

Partnership Africa Canada
Ottawa, Canada
June 2005

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The Diamond Geology of Angola

Angola may have the largest diamond reserves in Africa, but only 40 per cent of the assumed diamond resources have been prospected, mostly during the early 1970s. New prospecting is expected to give a clearer picture of the remaining alluvial resources and of the viability of Angola's many kimberlite pipes. Endiama's geology department is in the process of computerizing all the previous data from the last major prospecting exercise in the 1970s, and in overlaying new information obtained from diamond companies.

Alluvial diamond reserves were estimated in 2000 to be 40 million carats in the alluvial and terrace deposits. This figure has undoubtedly decreased, given the amount of *garimpeiro* digging that has taken place. These secondary (alluvial and eluvial) deposits of diamonds, between 80 and 120 million years old, are derived from eroded kimberlite pipes carried by glaciation and river systems across wide areas. Secondary deposits occur in the Lunda provinces, and in the provinces of Malange, Uige, and further south, in Kwanza Sul, Huambo Bié, Kuando Kubango, Moxico Huila and Cunene provinces. In the northern provinces, diamond deposits extend into the Democratic Republic of the Congo. There are also suspected offshore deposits along the coastline, although these have not been prospected. A De Beers proposal to investigate coastal and offshore diamonds was rejected in the mid 1990s on the grounds of potential damage to the fishing industry.

Angola has over 700 known kimberlite pipes, including several with a very large surface area. The kimberlites are aligned along a SW to NE trend across Angola into the DRC. There are estimated to be 50 million carats of reserves in these kimberlite pipes. In addition to those known since the 1970s, De Beers identified and sampled pipes in Lunda Norte in the 1990s and several major mining companies have undertaken aerial magnetic surveys to identify additional potential pipes. One kimberlite mine is in production, two more may come on stream during 2005, and at least two more will begin operations within three years. There is potential for many more kimberlite mines in the longer term, as well.

Kimberlite Pipes and Dykes	Status of project	Size m^2
Caixepa	n/a	24,000
Camafuca-Camazombo	Awaiting start of mining	480,000
Camagico	Under prospection	n/a
Camatchia	Under prospection	292,500
Camatue 1	n/a	156,000
Camatue 2	n/a	n/a
Camuazanza	To be prospected	72,000
Catoca	In production	540,000
Chiri	n/a	n/a
Luhinga I	n/a	15,400
Luhinga II	n/a	n/a
Luhinga III	n/a	n/a

History and Reconstruction

Diamonds, discovered in 1912 in Lunda Norte, are Angola's second most important export, worth $763 million in 2004 and expected to rise considerably over the next few years. Angola is presently the world's fifth largest producer of diamonds, and has the kimberlite reserves to be a bigger producer than Botswana. Angola's industry has under-performed since independence, primarily due to the effects of war. It was not until 2002 that official production rose to pre-independence levels.

Politically, the focus on Angola's diamonds has until recently been on the effects of conflict diamonds. The bulk of these diamonds were mined artisanally, and were brought into prominence by UN sanctions on UNITA's diamond trading in 1998. Prior to the 1990s, however, Angola was not an artisanal producer; it was an industrial-scale producer, drawing its diamonds from rivers and diamond-bearing gravel. Kimberlite pipes, although discovered decades ago, were not mined until 1998.

From the inception of mining, Angola was a country of major interest to the most important players in the world of diamonds. The colonial diamond entity Diamang reflected this, being a joint venture between the Portuguese state, De Beers and other international mining capital. Diamonds were first mined in the Lunda Provinces, which continue to be major mining areas, but were later discovered in many other parts of Angola, including the Kwanza River area and central Angola.

At independence, Diamang ceased to function due to lack of trained Angolan staff, but remained the principal government diamond operation until it was replaced by Endiama in 1986. After independence, Angola contracted a De Beers-owned company – MATS (Mining and Technical Services Ltd.) – to mine. But by 1986 relations with De Beers had collapsed, and UNITA forces, backed by the South African Defence Force, were attacking and closing mines.

Between 1986 and 1991, Endiama used contracted mining operators. Joint venture contracts were not introduced until after 1994, with the advent of a period of relative peace. The Lusaka protocols gave UNITA the rights to nominate four Ministers, including the Minister of Mines and other government officials, and the rights to three diamond concessions. Signed that year, these agreements still function as the constitution, with UNITA having the right to nominate four ministers and seven vice-ministers in the Government of National Unity and Reconstruction, including the Minster of Mines. It may also nominate officials to a wide range of posts in provincial governments. In addition, under this agreement UNITA has the rights to three diamonds concessions.

Between 1992 and 1996, there was little legal output from Angola because of UNITA's occupation of most of the diamond fields. UNITA's smuggled production reached close to a billion dollars a year in the mid 1990s, and the Lundas remained a war zone until UNITA's surrender in 2002. Only one mining company operated between late 1992-5, Sociedade Mineiro de Lucapa, (SML). But with relative peace in the periods between fighting, *garimpo* output in non-UNITA areas increased, and diamonds were traded though buying systems in Luanda. Smuggling, however, always existed.

Growth in the formal sector slowly increased between 1996 and 1998, and several new mines came on stream, surviving the 1998-2002 war, including the Catoca kimberlite, Sociedade de Desenvolvimento Mineiro (SDM) and Project Chitotolo. Many scheduled mining projects, however, declared *force majeure*, and several working projects, including the DiamondWorks Yetwene mine, were closed due to attacks by UNITA.

The 1999 UN sanctions on UNITA's diamond trading, the first of their kind, created something of a diplomatic revolution, because previous sanctions on UNITA had been ignored. This time, however, a UN expert panel investigated violations and named sitting heads of government (in Togo and Burkina Faso) as hands-on actors in sanctions-busting. Angola had to change its diamond trading systems, introducing single channel marketing through the creation of ASCorp which tightened internal controls to ensure compliance with the diamond sanctions. A certificate of origin system was introduced, a precursor to the Kimberley Process Certification Scheme (KPCS) which covered the global diamond industry after January 2003.

Today, Angola's diamond industry is expanding, with major development in the formal mining sector and five more mines scheduled to come on line in 2005. Endiama and diamond marketing have been restructured, and a policy of Angolanization is now a priority. No single international mining company is expected to dominate the mining landscape. Alluvial mines are said to have little life left in them, and prospecting for kimberlite mines is now the priority, along with the development of those that are already known. Pro forma environmental regulations have been drawn up by Endiama, but against a background of ninety years of neglect in the mining environment (see article on page 10).

The expulsion of illegal miners and buyers, while viewed as a necessity in bringing order to the mining regions, was marked by brutality and by a lack of policy support for the small Angolan miners who were expected to gain employment in formal mining ventures. Many of these latter ventures have not, and arguably never will, move forward. Additionally, it is questionable how much mining companies can contribute to social reconstruction.

Government Oversight

Governance and control of the diamond industry in Angola is divided among three bodies, Endiama (Empresa Nacional de Diamantes de Angola EP) – the state-owned diamond company – the Ministry of Geology and Mines, and the Corpo Especial de Fiscalizaçao e Segurança de Diamantes (CSD) a body reporting to Angola's diamond supremo, General Fernando Miala.

The Role of the CSD

The CSD, which has the highest level of oversight, comprises representatives from Endiama, the Ministry of Geology and Mines, and the National Police. It was originally conceived as a policy making body for the diamond sector. At ground level, the CSD has diamond intelligence, criminal intelligence and anti-smuggling roles, gathering information and tracking the activities of companies involved in the prospecting, exploitation, buying and trading of diamonds. It is also responsible for the secure movement of diamond consignments, and for the security of money used in diamond trading.

The Ministry of Geology and Mines

The Angolan Diamond Law of 1994 remains in force, but the Ministry of Geology and Mines is making changes in policy and strategy. These are implemented by Endiama and other bodies, and include the awarding of concessions to Angolans who qualify – through proven financial or technical capacity. All mining projects have Angolan participation, through Endiama and other Angolan companies and individuals. "Technical capacity" may include, for example, security and logistics for the project, as at Chitotolo. The Ministry of Mines approves projects for alluvial prospecting and mining rights. Rights to prospect and to mine kimberlite pipes also go to the Council of Ministers for approval, and are gazetted.

Endiama

The state-owned diamond firm, Endiama, is the leading player in the Angolan diamond industry. Endiama is the largest single shareholder in mining ventures, diamond trading, and the leasing of subsidiary services to the diamond mining sector. Endiama, which is a holding company for various enterprises, is the government body that enters into joint ventures in prospecting and mining. During 2003-4, Endiama negotiated the rights for 145 concessions awarded to Angolan entrepreneurs, with Endiama itself holding some of the concessions. Endiama facilitates introductions to foreign mining companies interested in mining in Angola, the vast majority of which are for alluvial operations with relatively short lifetimes – between three and six years, given the historical stripping of reserves by *garimpeiro* mining.

The "Iron Palace" in Luanda, designed by Gustave Eiffel. Endiama wants to transform it into a diamond dealers' club.

A similar strategy in the mid 1990s failed due to lack of investment by concession holders. At that time, many junior mining companies – some set up for the express purpose of mining in Angola – signed contracts, but many projects failed, in part because of high start-up costs and fees. Endiama acknowledges that the awarding of new concessions has been stopped because most of the concession holders have not begun work and because a further check on the claimed capacity of the concession holders is needed. The policy is also apparently deterring some potential foreign investors.

Of the 145 concessions awarded, nine are operational and another nine or ten are in process of starting up (these are discussed on page 8). The remaining 125-odd concessions are vacant, and artisanal miners – mainly Angolans now – are moving back onto them.

Endiama is a partner in all mining projects, with shareholding ranging from 20 to 50 per cent in alluvial mining projects, and 51 per cent in the case of kimberlites. Income from subsidiaries has increased substantially in the past few years, from very low levels in the 1990s. Endiama's principal subsidiaries are:

- SODIAM, the diamond trading company, 99 per cent owned by Endiama, through which all the diamonds produced in Angola are now sold (see article on page 5);
- ENDIAMA Prospecting & Production, which holds all of Endiama's prospecting and mining interests;
- EndiTrade (Endiama Integrated Logistic and Trading SARL), which provides logistical support and supplies food and other goods to Lunda Norte – 95 per cent Endiama-owned;
- The Sagrada Esperança Hospital in Luanda – Endiama's hospital, relocated from Lunda Norte, which is used by all companies in the diamond sector.

Endiama also has smaller shareholdings in two significant areas: a 30 per cent share in Alpha 5 (Alpha Cinco) – the security company that guards the perimeters of most diamond installations[1] and a 49 per cent share of the light airline SAL, jointly with Angolan airlines, TAAG, which hold 51 per cent. Endiama is also looking for a shareholder to relaunch Angola Air Charter, its cargo airline.

Endiama and Transparency

Transparency in Angola's diamond industry has been problematic. There has been little or no advance on the implementation of a diagnostic and feasibility study of Endiama carried out by Price Waterhouse Coopers two years ago. However, according to Endiama, results – in the form of restructuring – are expected, possibly in 2005. The IMF is almost certain to want the privatization of Endiama and its subsidiaries, and indeed Endiama's new structure would lend itself to this. It would, however, make the development of stronger social policies in the diamond regions – at least through Endiama – even less probable.

Another concern relates to the capacity of Endiama's partner companies. With 145 concessions now awarded and the vast majority of them clearly not being developed, it is possible that some concessions will be clawed back. In fact, the process of awarding diamond concessions is far from transparent, and has been widely criticized for benefiting the elite and political supporters of government. The new method of awarding alluvial concessions by the Ministry of Geology and Mines reinforces this, since these concessions are no longer gazetted.

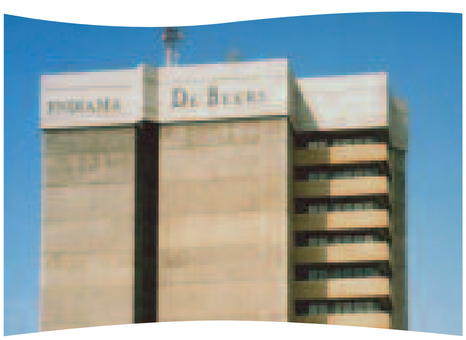
A further transparency question relates to the monitoring of diamond company tax revenues. Although Endiama now makes available raw data on diamond exports, data from the Ministry of Mines and provincial governors on the allocation and use of diamond sales tax revenue allocated to the Lundas (ten per cent of the total) is not made public. And finally, there have been significant discrepancies between Endiama's production and revenue figures and those of the Ministry of Geology and Mines. This suggests that any of the figures provided by different government offices can only be taken as an approximation at present.

Endiama and Social Development

Endiama sees its contribution to social development and the economy primarily in the growth of tax revenue for the state. The state, in turn, will – in principle – use the increased diamond revenue for social development throughout Angola. Increased income from diamond sales and the growth of mining projects could triple sales tax revenue within three years and almost double other revenues. Signs of reinvestment in the diamond areas are small as yet, despite a policy of returning 10 per cent of diamond taxes to the Lundas. After three years, in fact, the policy appears to have had little effect.

Endiama's direct investment in social projects is mainly through the recently-started Brilhante Foundation. Endiama plans to invest in the project and is seeking contributions to the Foundation from other companies in the sector. Among projects for which Endiama is seeking support are the rehabilitation and equipping of hospitals in Lucapa and Calonda, the provision of two schools and a water supply in Cafunfo, and the building of Endiama compounds in Lucapa Nzagi and Saurimo, including housing for workers. Building a new Endiama guest house, medical centre, hotel and diamond dealers club in Luanda is also on the list of priorities, as is the rehabilitations of a museum in Dundo.

Given the nature and location of these projects, Endiama appears to have few plans for major social rehabilitation in the diamond provinces, beyond what is being undertaken by mining companies (this is discussed on page 6). Expanding Endiama's own infrastructure is obviously a major priority for the company, but the setting up of a foundation rather than direct, targeted investment in local infrastructure suggests that projects are likely to be *ad hoc* and that resources will continue to be focused on the capital, Luanda



Diamond offices, Luanda

SODIAM: Buying, Selling and Kimberley

From July 2004, SODIAM[2], a subsidiary of Endiama, became Angola's single channel for the marketing and export of diamonds, replacing ASCorp and increasing the state's share of diamond sales from 51 per cent to 100 per cent. Today, SODIAM exports the production from all of Angola's diamond mines, both formal and artisanal. Exports totalled 6.6 million carats, worth US$763 million in 2004, a slight decrease in value from 2003. The artisanal sector supplied approximately 800,000 carats of this, with the bulk now coming from formal mining projects. As the sole exporter, SODIAM is also responsible for Kimberley Process compliance in Angola.

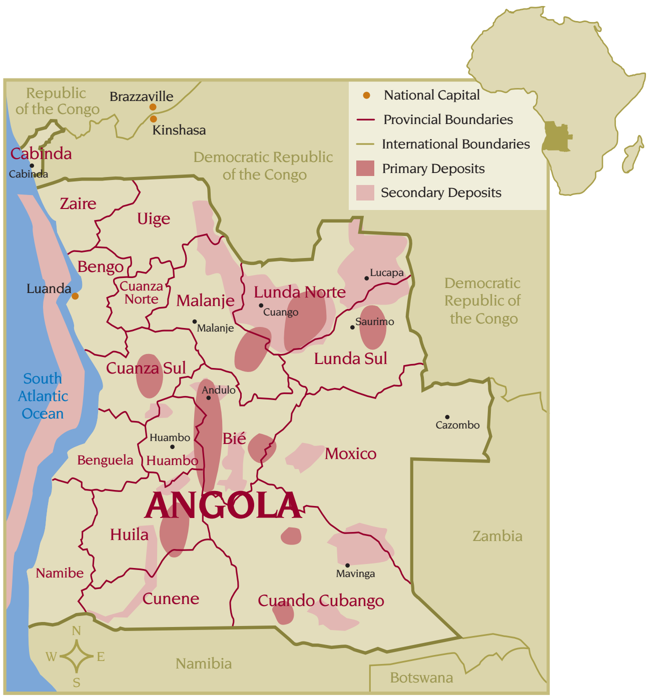
SODIAM's marketing strategy includes the creation of international offices in order to make Angola's diamonds more accessible on the open market. SODIAM opened an office in Antwerp in November 2004, where a Belgium company, Omega Diamonds, had marketed part of Angola's diamond production for several years. An office in Tel Aviv, where a Leviev company has handled Angolan diamonds, was opened in July 2004. Offices in New York and Dubai are expected to be formally opened in 2005, as is an office in mainland China or Hong Kong[3].

However, a closer look at SODIAM shows there is no open market as yet. The production from each mine is presently sold by SODIAM to a single foreign company in each centre. The Catoca production is now being bought by International Diamond Industries (IDI) in Tel Aviv, which has entered into a joint venture with SODIAM. Sonland Lda. Cuango diamonds continue to be sold to Omega Diamonds in Antwerp, and the production from other mines is similarly sold to single buyers. Nearly seven months after SODIAM began operations, however, few of the formal mining companies had received sales contracts. This may indicate that further revisions of the already complicated buying structures are envisaged. The more complex the sales structure, of course, the lower the return will be to Angola.

Lazare Kaplan (LKI), another SODIAM partner, signed a four year technical co-operation agreement in April 2004[4]. LKI is one of the largest diamond dealers in the United States, with major cutting factories in Puerto Rico and Russia, and it is one of De Beers' more important sightholders. LKI has a long history in Angola, beginning in the 1980s. Between 1995 and 2000, the company had a joint open market buying venture with Endiama.

LKI operates SODIAM's buying offices for the informal sector in the interior – in Cuango, Cafunfo, Luremo Nzagi, Lucapa, Muchinda, Saurimo and Andulo. The main LKI buying office, at Miramar in Luanda's diplomatic quarter, coordinates and receives all the diamonds from these offices. The Miramar office was opened in August 2004, and was said to be purchasing $10 million a month worth of diamonds – a figure which SODIAM hoped to double as more offices opened. LKI is now marketing the production from at least one major mine – Chitotolo.

ASCorp has also received a license to continue buying in the interior, although it has lost both its previous monopoly and control of the export processes to SODIAM. ASCorp is 51 per cent owned by SODIAM, and 49 per cent by Welox and TAIS (Trans Africa Investment Services). Its market share of the informal sector is unknown.



SODIAM and the Kimberley Process

Angola instituted a system of forgery-proof, numbered certificates of origin in 2000, in order to comply with UN sanctions, which called for the development of systems that would exclude UNITA diamonds from the internal buying circuits in Angola. With the full implementation of the KPCS, Angola modified its laws to take account of the new Kimberley Process requirements.

SODIAM is Angola's official exporting authority, and it prepares Kimberley Process certificates for each box of diamonds. Diamonds from formal sector mines are sent directly to SODIAM, where sales negotiations take place between the companies' valuers, SODIAM and Diamond Counsellor International, the government's official valuator. Since these diamonds are, or should be sent in run-of-mine parcels, any anomalies in the parcel should be visible. Boxes are sealed once the price is agreed, and the Kimberley Process certificate is attached. The designated signatories are the Deputy Minister of Trade and the Deputy Minister of Geology and Mines.

From March 2003 to October 2004, 200 Kimberley Process certificates were issued in total. Angola's principal export markets are Antwerp, which is the main market for goods from the informal sector, Dubai and Tel Aviv. Official diamond imports into Angola consist only of returned parcels of mine samples.

Formal Sector Rough Diamond Exports

Year	Carats	Value
2000	2,830,158	$ 380,019,484
2001	3,832,255	$ 427,348,999
2002	4,147,082	$ 441,078,107
2003	4,829,384	$ 539,778,130
2004 (to Oct)	4,376,339	$ 499,519,118
Totals	20,015,219	$ 2,287,743,840

The *Diamond Industry Annual Review* for 2004 noted that there were no control systems then in place for the informal sector, beyond the expulsions of illegal aliens – both miners and buyers. In October 2004, after a considerable delay, the CSD began issuing licenses to buyers in the informal sector, mainly West Africans, known locally as "*patrocinadors*".

Buyers nominated by the purchasing companies – SODIAM/LKI and ASCorp – are licensed for three months by the CSD, which uses a paper-based control system. Following the issuance of the October 2004 licenses, the next set, due to be issued in January 2005, was delayed by a change in regulations. Previously buyers needed only a valid visa and work permit; in 2005 they also had to produce residence permits. This has reportedly led to a brisk trade in forged documents and the acquisition of residence permits, which are said to be worth as much as US$7,000 each. (About 4,000 West African nationals were arrested and deported between 2003 and 2005 because of improper documentation.)

Although the registration of buyers is now in place, SODIAM still has responsibility for ensuring that there is a paper trail from the artisanal miner to the point of export. However since the policy is now to abolish artisanal mining almost entirely, there has been little effort to track production from artisanal mining operations.

Leviev's Changing Role

Until 2004, Lev Leviev – who runs one of the largest integrated diamond operations in the world – bought approximately 70 per cent of Angola's diamonds and marketed the output through SODIAM Tel Aviv. With the changes in Angola's marketing operations, Leviev has an altered role. He no longer buys the Catcoa production, although he does retain a marketing support role in Tel Aviv.

Although he is no longer pre-eminent in the buying sector, Leviev is expanding his mining role in Angola, and is in the process of building a cutting factory. The factory, which was under construction at the beginning of 2005, is expected to employ 100 cutters, who were being trained at the same time. This is the first value-added diamond project in Angola. Leviev is also a major investor in two kimberlites – Catoca and Camafuca Camzomba. And he has added to his mining investments in Angola with three alluvial projects: Yetwene, Luremo in the northern Cuango area and Milando, in Malange Province. Yetwene, once operated by DiamondWorks, began production in 2004. DiamondWorks' rights were lost when the company showed no sign of returning to Angola.

Mining Projects and International Companies

In 2004, the formal sector – industrial-scale mining projects – accounted for about 82 per cent of diamond production by weight, and represented 76 per cent of the value of exports. Growth in the diamond sector is expected to come from the further development of formal mines, providing tax and royalty income to the government at a much higher level than before. This will represent more training and employment and, presumably, greater investment in social projects.

Major projects were described in detail in the 2004 *Annual Review*;* what follows is a brief update. At the beginning of 2005, there were nine operational mining projects in the formal sector and five new mines were close to start-up, including one kimberlite mine. Several additional mining projects in the Cuango region have been agreed, but according to Endiama, no new international companies were expected to start mining there in 2005 – although several major prospecting ventures were expected to begin. On the estimates available, the formal sector is likely to produce $275 million more in diamond exports in 2005 than it did in 2004.

Endiama is expected to start it own mining operations at Camuanza in the Cuango in mid 2005. The area has both alluvial reserves as well as a known and partly prospected kimberlite pipe. This is Endiama's first solo mining project, funded by ESCOM Mining – the mining finance arm of the Portuguese Bank Grupo Espirito Santo. Endiama will also begin mining the Cacuilo project this year, with a group of Angolan companies.

The most substantial development is at the ***Catoca*** kimberlite, Angola's flagship mine and its largest, producing three million carats a year. Production was expected to double after June 2005, with the completion of new plant at the mine. The mine is expected to produce about 4.5 million carats by the end of 2005 rising to six million carats in 2006, with an anticipated value of $400 million a year. Catoca Lda. is jointly owned by the Russian diamond giant Alrosa and Endiama, each holding 32 per cent. Brazil's Odebrecht Mining Services holds 16.4 per cent and Israel's Daumonty Financing holds 18 per cent.

Alrosa is also a partner in two other projects – Luo and Chinbongo, in a joint venture with Endiama and others. The chairman of Alrosa, Vladimir Kalatini, recently visited Angola to look at the progress of the projects and to confirm that phase two of the Luo project would start in 2005. Production from the Luo Project's Camatchia kimberlite pipe will initially be approximately 600,000 carats a year. A second pipe at Camatchia will be developed concurrently. Chinbongo, an alluvial operation, is expected to produce 15,000 carats in 2005.

***Sociedade de Desenvolvimento Mineiro* (SDM)** mines at Luazamba in the Cuango Valley. SDM is a 50/50 joint venture between Odebrecht Mining Services and Endiama. These mines are now expected to operate until March 2006. SDM is the single largest alluvial mining project in Angola at present, and the only operational formal mine in the Cuango valley, which has otherwise been mined by *garimpeiros*. The company is also in the process of developing alluvial mines at Muanga in the south of the Cuango and will start mining alluvial diamonds there in 2005. In addition, it will begin kimberlite prospecting; an aerial magnetic

Formal Sector Production By Mine 2001-2004 (carats)

Mine	2001	2002	2003	2004 estimates
Catoca	2,625,264	2,890,798	3,160,409	3,200,000
SDM	419,045	383,756	612,691	680,000
Chitolo	233,930	276,781	332,134	n/a
Lucapa	69,306	76,410	69,159	n/a
Calonda	199,097	182,355	276,290	n/a
Mufuto Norte	244,055	314,263	254,751	n/a
Luarica	–	–	66,558	n/a
Yetwene	–	–	–	48,000
Luo Project/Chimbongo	–	–	–	84,000
Totals	3,790,697	4,124,363	4,771,992	5,800,000

Source: Endiama (2001-4); 2004 figures are estimates; confirmed exports to October 2004 from the formal market were 4,376,339 cts.

*Available at http://www.pacweb.org/e/images/stories/documents/angola_ev4.pdf survey has already been carried out.

BHP-Billiton, the giant natural resources group, and **Petra Diamonds Ltd.**, signed a formal joint venture agreement in December 2004 to prospect and potentially mine a kimberlite and alluvial complex at Alto Cuilo which – given BHP's interest in large scale projects – is considered to have a high level of reserves. BHP may later become the majority operator. Angolan partners are Endiama and Moyoweno Lda.

The Lapi Project, near Catoca, expected to start mining in March 2005. Lapi is an alluvial project with three partners: New Millennium Resources N.L. 34 per cent; Mombo Lda. 15 per cent; and Endiama 51 per cent. It will produce 10,000 carats per month at first, increasing to 20,000 after five months. The project, covering an area of 323 km^2, is expected to have a life of 6.5 years.

Following the end of a lengthy arbitration process initiated by De Beers over its contested 1991 contracts with Endiama, **De Beers** and Endiama were, at the time of writing, negotiating potential new contracts to commence by the end of 2005. These relate to parts of areas that were previously De Beers concessions in Lunda Norte, Malange and Cuando Cubango. The contract under negotiation in 2005 covered prospecting for kimberlite mines in seven areas. The resulting joint ventures would see 51 per cent going to Endiama, seven per cent to Angolan companies and the remaining 42 per cent to De Beers. The outstanding $50 million loan to Endiama was expected to be treated as an investment. De Beers has reportedly waived its claims for restitution on previous concessions, interest on the loan, and the rights to buy Cuango Valley diamonds. If negotiations fail, any return to arbitration will be on a much more limited basis than in the past.

Large mine and river diversion dug by illegal miners

Mining Companies & Social Responsibility – A Drop in an Ocean of Need

Mining companies in Angola are expected to invest in local development in their region, including infrastructure, schools, agriculture and medical posts. Improving local facilities for workers and their dependents is an obvious necessity, but the policy for social development is not integrated across the mining areas. Investment is local and limited, and efforts beyond a company's own immediate staff may be little more than a "hearts and minds" operation. The large mining companies are paying significant taxes to the government, and might well ask why the government itself is not providing more social services in diamond mining areas.

The *Annual Review* examined the social development efforts of two large companies, representing 56 per cent by value of Angola's formal mining diamond output – Sociedade de Desenvolvimento Mineiro (SDM) and Catoca – a joint venture with investment from Endiama, Russia's Alrosa, Brazil's Odebrecht Mining Services and Israel's Daumonty Financing Ltd.

Catoca

Approximately 6,000 people live in the vicinity of the Catoca Mine which employs 2,000 Angolans and about 200 expatriates. Salaries and wages totalled $34 million in 2003. About one third of the employees are brought in from Luanda and elsewhere and are housed at the mine itself; the rest are local residents. There are also an estimated 7,500 internally displaced people in a refugee camp in the region. Soya milk is distributed daily to all the children, including those in the camp, at a cost of $50,000 per month.

Catoca intends to increase local housing and other facilities for workers and for all local residents. Catoca is relatively close to a major town, where some additional hospital and educational facilities exist. This is not the case in the much larger alluvial areas, which can cover as much as 3,000 km^2 and which encompass much larger populations. At Luzamba, SDM operates in an area where the first government secondary school is only now being built, and where the small local hospital does not function. There is a population of about 95,000 in the concession area of which 35,000 are children. The mine can never meet local needs of this size.

Contributions to Social Development[5]

Taxes Paid	$41.4 million including production tax (royalties), Social Security Fund, taxes on capital and profits.
Dividends to Shareholders	$47 million of which $13.1 million to state diamond company Endiama.
Education	A small primary school in Luenda, built in 2002 at a cost of $150,000, and $150,000 spent during 2003 to maintain the school. Five pre-schools; $50,000 spent on food and educational materials.
Medical	$2 million towards rehabilitation of Saurimo Hospital. A medical centre at the mine treats employees, dependents and urgent local cases. 32,900 cases were seen during 2003. A major HIV/AIDS education programme is underway. Total spent on mine and local population: $2.9 million.
Agriculture	Large agricultural project producing $1.9 million worth of food for the mine. $8 million spent on food for employees and local residents.
Electricity and water	Running water has been provided to all local residents. A hydro-electric power plant is under construction and will provide electricity for the mine and for the local population

Mining Companies & Social Responsibility – A Drop in an Ocean of Need (Cont.)

Sociedade de Desenvolvimento Mineiro (SDM)

SDM employs 1,293 people, of whom 119 are expatriates, the rest are Angolan nationals and about 600 are local residents. Salaries and wages totalled $17.37 million in 2003.

No one is under any illusion that local needs are being fully met. Diamond mining companies provide benefits in the form of taxes to the government, local education and some health and food needs, as well as employment and its benefits to the local community. But these benefits are clearly localized. A broader strategy on the part of Endiama is needed if benefits are to be fairly spread across the mining regions. Government investment – very low in a diamond producing former war zone – needs to be increased. The expenditures by mining companies are little more than a drop in an ocean of need.

Contributions to social development:

Taxes Paid	$14.5 million including production tax (royalties), Social Security Fund, taxes on capital and profits.
Dividends to Shareholders	$17 million, of which $8.5 million to Endiama.
Education	Three primary schools, one with over 1,800 pupils; also providing literacy and computer training for adults, one facility with 400 pupils. Education and social work expenditure – $334,000.
Medical	The mine clinic treats employees, dependents and urgent local cases; it has an ambulance and 24-hour emergency service. It sees 150 patients daily. It has and HIV/AIDS education program and provides vaccinations against TB, polio, measles, hepatitis and diphtheria. 5,000 children vaccinated. Total health expenditure, mine and local population in 2003 – $5 million.
Agriculture	An agricultural programme grows some staples for the mine and for local distribution. Also food subsidies of $1.3 million.
Electricity and water	In two heavily populated areas: two pumps for drinking water; rubbish collection; road repair.

A SODIAM LKI *buying office in Cuango town*

The Artisanal Sector

The government is attempting to abolish the artisanal or *garimpeiro* sector in Angola through the now notorious Operation Brilhante (see page 11), and other policies. But where foreign diggers – the majority of the *garimpeiros* – have been forced out, Angolan *garimpeiros* are now filling the void. It is, in fact, unlikely that this sector will disappear any time soon. Even the National Police have noted that cleared areas will be re-occupied illegally if mining companies do not take up their concessions[6].

Garimpeiro mining has been a vector of war, smuggling and environmental damage for years, but the small miners are not entirely, or even primarily to blame. In practice they are in thrall to a system of diamond buying and internal trading that has not changed since its inception – the *patrocinador* or middleman system. Miners on the whole receive between five per cent and twenty five per cent of the value of the stones they dig, at prices set by the buyers. A life of absolute poverty based on mining in harsh and unsafe conditions is the lot of most *garimpeiros*, and the legality or illegality of their work makes little difference.

Artisanal mining under license does exist in special protected zones in Angola, giving diggers access to deposits that are not commercially viable for industrial-scale companies. Licenses are available to people who have lived in an area for more than five years, for groups of up to five miners. The original objective was to give local populations a stake in the diamond sector, as well as the means to make a living in areas where other economic activity is limited.

The state diamond company, Endiama, is responsible for awarding these artisanal mining licenses, and has the key role in any policy that affects artisanal miners. It hardly needs to be said, however, that little artisanal mining is actually done under license. Many of those involved do not meet the criteria, and others cannot meet the price of licenses, bribes and the difficulties in dealing with government officials. It is likely that few people in the diamond areas are even aware of the regulations governing mining and its effects on their land and access rights.

In 2004, a new Land Act was promulgated, reinforcing the state's ownership of land, and hence the existing Special Regime for the Diamondiferous Mineral Reserve Zones[7], which sets out land access rights in mining areas.

There are no rights of access to, or residence in, active mining areas in the concession. Villages can be relocated to make way for mines, and the only permitted economic activity is subsistence agriculture, unless artisanal mining rights have been specifically granted. Free circulation is restricted to the right to travel on established roads in the area but not on mine roads.

Reserve Zones are areas where diamond deposits have been identified as suitable for development on an industrial scale. Entry, movement and residence in these areas is restricted to local residents, and economic activities other than subsistence agriculture are banned. No new villages or expansion of business can take place. In principle this covers wide areas of Angola, but in the past it has gone largely un-enforced, even in both Lunda provinces. Attempts are now being made to enforce it in areas where new concessions are being awarded. With 145 concessions awarded in 2004 alone, the restrictions could involve large areas of the national territory, affecting a considerable proportion of the population.

For many artisanal miners, diamond income is the only way into the cash economy, supplementing a life of subsistence farming or serving as an entire family's only income. Giving local populations a greater stake in the diamonds in their area could increase both their incomes and local stability. A constructive policy for positive artisanal mining put in place now – identifying potential artisanal areas and monitoring these on the ground – could help contain *garimpo* mining, especially given the wide areas involved. But a major change in the organization of the sector would be required to achieve this. Endiama has both the infrastructure and, arguably, now, the investment capacity to carry out such a task.

Artisanal Mining and the "*Patrocinador*" System.

Artisanal miners, in the main, do not work autonomously. They are organized by the *patrocinador* and the local leaseholders, or the local *soba* (chief), who in law has the right to identify those Angolan nationals who can (and cannot) mine. The West Africans licensed by SODIAM and LKI to buy diamonds are *patrocinadors* who operate legitimately (about 4,000 illegal *patrocinadors* from West Africa were repatriated during 2004). They are not employees; they work on a commission basis and buy at the lowest possible prices. The *patrocinador* funds the mining and buying operations and provides mining equipment food, medical supplies and other necessities to groups of miners. In return, he receives the diamonds, whether through purchase at a reduced rate, or through exchange for goods and medicines. The leaseholders or local *sobas* (chiefs) working with the *patrocinador*, assign miners to work in groups of about 250, often in family units. While sometimes regarded as chaotic, this kind of artisanal mining is actually well organized: it is a system of patronage, with the least benefit going to those on the bottom, the miners.

A 2004 case study undertaken for Partnership Africa Canada in Lunda Norte showed that family mining groups consist of women and children as well as adult men. Forty six per cent of those interviewed and working were children under the age of 16. Many women worked as well, and differences in gender representation were large in only one age group. Young men dominated the 17-25 age group. The report noted that "In today's mining areas, fear, insecurity and sexual abuse are constant. Today's child miners are … a direct result of war, poverty and the absence of education; there are few schools in the diamond regions and even the existing ones were destroyed during the many decades of war."[8] Yet these families, who worked in unsafe and abusive conditions, derived less than five per cent of their income from mining diamonds, with the largest part derived from agriculture and the rest from business and trading. This was not because diamonds represented less work than agriculture; it was because the diggers were so badly paid for the diamonds they found.

The Value of Artisanal Mining

The official artisanal or *garimpeiro* sector has produced diamond exports worth $1.2 billion in the last five years, yielding taxes of approximately $70 million during that period. Real production from this sector – including smuggled diamonds – has been at least double this amount. The sector is now much smaller, following the forced repatriation of over 250,000 illegal foreign miners, so smuggling has undoubtedly declined.

With some measure of control over the sector, there is now a major opportunity to change the buying system and the appalling, exploitative conditions under which these miners work. Endiama expects that *garimpeiros* will gain employment in larger mining projects, but it is improbable that poor subsistence farmers or unemployed youth – for whom diamonds are the entrée to a cash economy – will stop mining on their own. Endiama itself acknowledges that there are areas which could be suitable for continued artisanal mining.

It is evident from a visit to three villages in connection with this *Annual Review* that the local population has not benefited from artisanal mining. There were three buying offices operating in Cuango town – two of them belonging to SODIAM/LKI and one to ASCorp, with several less legitimate buying offices closed down. Although Cuango is a local government centre and diamond buying hub, the poverty is severe. It is obvious that the money from past *garimpeiro* mining has simply left the region.

Growth in Angola's diamond revenues, however, should make investment possible in a system that could replace *patrocinadors* and support *garimpeiros* with equipment and food. It could assist in prospecting and training, and it could increase miners' share of diamond sales through fair prices for both mining supplies and diamonds, as recommended in SADC's policy on small scale mining. SODIAM and Endiama need not be the only investors. Diamond giant LKI, SODIAM's artisanal sector buying partner, has entered into a partnership with the US Overseas Private Investment Corporation (OPIC). OPIC will provide "a global framework credit facility to support investments by LKI in enterprises engaged in diamond mining or diamond cutting and polishing activities…"[9] The focus is particularly on Africa and targets mining operations that lack international marketing support.

Official Exports from the Artisanal Sector

Year	Carats	Value	Average carat values
2000	1,421,240	$ 349,331,080	245.79
2001	1,326,598	$ 261,227,387	196.92
2002	898,946	$ 203,480,921	226.35
2003	1,231,687	$ 248,321,973	201.61
2004 (to Oct)	623,454	$ 131,029,535	210.17
Totals	5,501,927	$ 1,193,390,896	

Source: SODIAM/Endiama

Investment to aid and support small miners would have multiple benefits, including a reduction in smuggling and increases in the standards of living among poor people – for whom this kind of mining is unlikely to end, no matter what the government does. Additionally, the provision of banking facilities in the Lundas would reduce the circulation of dollars from diamond buying, and would reduce the flight of capital to Luanda, encouraging both savings and spending in the region. Endiama now has the infrastructure to do this and should consider how it might bring about change, rather than assuming the sector can simply be abolished.

Illicit Mining and Smuggling

Illicit mining in Angola is actively supported by structured networks of internal and external players who import or smuggle capital for the purchase of diamonds, equipment, food and medicine, and receive illicit diamonds in return.

The middleman system is one such network, but the scale of some illegal mining operations found in the Cuango region is actually on the level of small mining companies. Much of this mining now takes place in the river beds, since the gravels and terraces have been largely depleted. This requires higher technical levels, well equipped divers and larger river diversions. This is semi-industrial mining on a large scale, whether it is the army using dredges in Bié Province or foreign companies acting outside the law.

Diving and other mining equipment is flown in for these operations – for example the large quantities of captured equipment from the southern Cuango including pumps, diving suits, generators, rubber dinghies and satellite phones. In some cases small arms have been found. One illicit operation excavated a paleochannel (an ancient dried-out river bed) and built a river diversion using sandbags. This would have taken considerable co-ordination and is far removed from the small family groups excavating gravels or using the rafts favoured by Congolese miners. In fact, the more traditional methods of artisanal mining have been replaced in some areas by illicit semi-industrial mining.

An established illicit diamond banking system exists in order for these networks to bring in foreign capital for mining or buying, bypassing Luanda and the official system. The procedure is simple. Money is paid into a foreign account by illicit external players and dollars are provided on the ground in the mining regions of Angola, for which between five and ten percent of the value of the transaction is charged.

External players drive the demand for the high quality diamonds that Angola can produce, and illicit goods yield greater profits than those bought legally. Smuggling from Angola has been estimated at up to $350 million a year. While this figure is almost certainly too high today, even half that amount would be a demonstration that the Kimberly Process reliance on a voluntary code of internal controls and industry warranties is completely inadequate

Diamonds and the Environment

Angola is divided into five broad eco-zones:

- Lowland tropical forest (rainforest) occurs in the northeast part of the country and is characterized by high rainfall all year round, with high evaporation and low soil fertility;
- Moist savannah occupies around 70 per cent of the country and is characterized by rainfall ranging from 500 to 1,400 mm per year in the rainy season; there is a broad range of soil types, generally poor in nutrients;
- Dry Savannah occurs in the southern part of Angola;
- South Africa's Nama-Karoo plateau extends into the south-eastern part of Angola; and
- Desert occurs in the southwest part of Angola along a narrow coastal strip.

Diamond mining has mainly taken place in the first two types of environment, and mainly in the northeast, although deposits occur across the country. The mining law of 1991 and the "*Lei de Bases do Ambiente*" (Environmental Framework Law, 1998) govern mining and the environment, and the obligation to implement environmental impact assessments (EIAs) for new projects likely to affect the environment. The principle of restitution is that the "polluter pays". However, the law has not previously been enforced, and it is only now that change is beginning to occur.

With massive planned increases in formal mining projects, the scope for environmental damage increases, and Endiama has now put in place an appendix to contracts, detailing the environmental obligations of mining companies. All major mining companies are now carrying out environmental studies in their concession areas, in many cases for the first time. The exception is the Catoca kimberlite, where issues of environmental impact and ongoing assessment have been built into the development of the mine since the start of the project.

Results of the environmental studies will be assessed during 2005, but will only affect active mines. A wider impact study on mining regions has not been undertaken, in part because of poor access for most of the last decade due to the war or the presence of large *garimpeiro* groups. Environmental baseline studies are now supposed to be undertaken when companies enter a concession. The environment will not be pristine, however; in most areas mining will already have taken place – by Diamang in colonial times or by others since then.

The principal issues identified have roots in the past as well as the present, and include:

- Increased soil erosion due to mining; heavy rainfall also creates soil erosion in the Lundas;
- Irreversible loss of topsoil, making ex-mining areas barren;
- Destruction of riverine environments by the building of river diversions;
- Deforestation as a result of mining and other local economic necessities not necessarily related to mining – firewood, clearing areas for agriculture and of the trading of timber for cash.

The unanswered question is the extent and significance of these effects, and how they can be set to rights. Diamond mining is effectively a very large-scale earthmoving operation, significantly degrading the environment during the life of a mine. Degradation, according to one mining expert, "entails a decreasing of the original quality and/or developmental potential of an area, even if no direct hazards to human or animal life are involved."[10] Environmental restitution aims to minimize these effects. Modern practice is to build in environmental questions at every stage of a project, an approach which is less expensive for mining companies than the much higher costs of environmental reconstruction after the event.

In formal mining operations, waste material – rocks, gravel and sterile overburden (sand) is stored in dumps, which can be re-vegetated if the topsoil is reserved. But *garimpeiro* operations, which have been very extensive throughout Angola, create "moonscapes" – mile upon mile of unfilled pits and the widespread displacement of sand and gravel.

A second environmental impact of mining is pollution, although diamond mining is one of the least polluting types. Toxic chemicals are used only in DMS (dense media separation) plants, part of the diamond extraction process. Water pollution can also occur as a result of mud displaced into rivers. Kimberlite mines have more potential for contamination if badly run, but the only operational kimberlite mine, at Catoca, is seeking ISO rating for its compliance with international norms of environmental practice.

Mining takes place across large river systems in Angola. Negative impact on the rivers can result from the building of river diversions and canals, the rerouting of rivers, and building dams so river beds can be exposed and mined. A river can be returned to its course at the end of mining, but old abandoned diversions can be readily seen in Angola from the air. River flow rates, the effects on water supplies, on fish life and water purity are all issues.

Environmental problems in Angola, of course, go far beyond the impact of mining, to encompass major public health and infrastructure issues. According to the World Bank, the Angolan government's environmental strategies are still being developed and will be spelled out in two major forthcoming documents: the National Environmental Management Programme (PNGA) and the National Environmental Strategy (ENA).

Operação Brilhante: Expulsion of Illicit Miners and Buyers

Operação Brilhante, whose objective was to expel illegal foreign nationals from the diamond regions, was in its third phase in the first quarter of 2005, having started in 2003. A staggering total of 256,400 foreign citizens originating from 21 African countries, with the majority from the Democratic Republic of the Congo and West Africa, had been expelled by early 2005, under conditions widely criticised for their brutality. Expulsions, suspended in May 2004 after protest from the government of the DRC, started again in August. The operations were authorized to counter threats to Angola's sovereignty and territorial integrity, as increasing numbers of miners were crossing the border from the DRC. The government announced an end to the operation in April 2005, although it said that "micro operations" would continue.

The expulsions were discussed in detail in the 2004 *Annual Review*. NGOs had documented death, rape, the forced administration of emetics and laxatives to find diamonds swallowed by miners, forced marches across the border and illegal aliens bundled onto planes without their possessions. In August 2004 the African Union's Commission on Human Rights publicly criticised Angola, accusing the government of human rights abuse and xenophobia in carrying out the expulsions. The vast majority of those expelled were Congolese miners who had dominated the *garimpeiro* sector since the early 1990s, many imported in order to mine for UNITA. These miners – mainly young men, according to the UN – were the victims of poverty, unemployment, the *patrocinador* system and control at the point of a gun.

Although the operations aimed to expel illegal miners and buyers, Endiama has acknowledged that areas were prioritized according to data that suggested rich diamond deposits of interest to mining firms. This was confirmed by high concentrations of *garimpeiros*. According to Interior Minister Osvaldo Serra Van-Dunem, the operations simply enabled the government to assume control over state mining reserve zones[11]. The influx of foreign miners and buyers was undoubtedly problematic and it was increasing, but the solution was draconian. Restoring legality to Angola's diamond regions must clearly go much further than expelling illegal aliens.

A report published by the Mario Soares Foundation in March 2005, "The Stones of Death"[12] highlights the lawlessness of the Cafunfo region in particular, and provides details of killings caused by seemingly arbitrary police reactions to events. One of these included riots in Cafunfo caused by the removal of the town's only generators, owned by mining companies. Overall, the report paints a grim picture of extortion and illegal police activities in the diamond regions, combined with a failure to investigate or discipline those involved. It highlights illegal detentions in appalling conditions, with prisoners crowded into cells – on one occasion leading to the death by suffocation of 12 men. The report also examines the diamond trading system and the legal provisions under which small mining takes place, rightly concluding that these contribute to the poverty and displacement of local populations. The cases highlighted in the Soares report demonstrate that the Angolan police have been tainted by corruption and extra-legal activity, and that they operate with impunity.

Anti-smuggling initiatives and border controls.

Anti-smuggling initiatives began during the period when UNITA's diamond production was under UN sanctions (2000-2002). They have been resumed and abandoned on several occasions since. Initiatives have included the training of a specialized diamond squad in order to police buyers, gathering intelligence on smuggling rings and stopping smugglers at the airport – occasionally with reasonable success.

In March 2005, the National Police announced that new specialized units would be created to fight illegal diamond mining, the illegal entry of foreigners, drug trafficking and other illicit activities. This is the third attempt to set up specialized units, albeit this time with a better chance of success if for no other reason than the fact that so many illicit miners have been expelled. But the involvement of elements of the National Police, the army and other Angolans in illicit diamond production and trading will require more serious preventive efforts.

In addition to police measures, bringing Angolan *garimpeiros* into legal mining activities, licensing them and allowing them to sell directly to buying offices at fair prices would have a direct and positive impact on smuggling. Better internal controls in neighbouring countries would also help. Improving border controls into the DRC and Congo-Brazzaville has been under international discussion at both ministerial and technical levels in recent months. Although more customs posts were established during 2004, Lunda-Norte has a 770 kilometre border with the Democratic Republic of the Congo. 120 km of this is the Kassai River, which is a major point of entry for nationals from the DRC. The installation of electronic observation devices along this part of the border is being considered, but effective border control remains very much a work in progress.

In due course, it will be instructive to see whether the expulsions have resulted in noticeable changes in the average carat value of diamond exports from Angola's neighbouring countries during 2004.

Notes

1 "*Endiama: Uma empresa diferente*," Vasco de Sá. Endiama publication, Luanda

2 SODIAM is owned 99 per cent by Endiama and one per cent by IAPE (Instituto Angolano de Participação do Estado) and was set up by Council of Ministers' Decree in December 1999, with rights to cut and market Angola's diamonds and to enter into joint ventures to this end.

3 In April 2005, the Angola Press Agency announced that Endiama had been authorized to develop partnerships with the Hong Kong-based China International Fund Ltd., to prospect, research, mine, trade and polish diamonds.

4 Lazare Kaplan International Inc., Announcement, PR Newswire 26/4/04

5 2003 is the most recent year for which complete data was available. 2004 data was not scheduled to be released until after the time of writing. Data from Catoca Lda and SDM Annual Reports 2003, audited by Price Waterhouse Coopers, and from visits to some social projects.

6 Angola Press Agency report (Luanda) March 2, 2005

7 Law 17/94 – the Special Regime for the Diamondiferous Mineral Reserve Zones.

8 *Rich Man, Poor Man Development Diamonds and Poverty Diamonds: The Potential for Change in the Artisanal Alluvial Diamond Fields of Africa*, Partnership Africa Canada and Global Witness, September 2004

9 "Lazare Kaplan partners with OPIC to improve diamond production and sales in emerging markets." 9 Nov 2004

10 "Mining and Ecological Degradation in Zambia," Dr. Tom Draisma, State University of Leiden, Netherlands, August 1998

11 Home Minister Osvaldo Serra Van-Dunem, quoted by Angola Press Agency, Luanda, March 1 2005

12 *Lundas – The Stones of Death; Angola's Deadly Diamonds: Human rights abuses in the Lunda Provinces*, 2004, Co-ordination and editing: Rafael Marques, Legal editor: Rui Falcão de Campos, Mario Soares Foundation, Lisbon, March 2005

Partnership Africa Canada thanks the many people, institutions and NGOs who helped in the preparation of this report, including Endiama and diamond mining companies in Angola. We also express our appreciation to the Angolan NGO *Grémio ABC* for their support for the research work.

The Diamonds and Human Security Project is supported by the Canadian International Development Agency, Department for International Development - UK, the Canadian Catholic Organization for Development and Peace, the International Development Research Centre, Foreign Affairs Canada, Development Cooperation Ireland, the Canadian Autoworkers Social Justice Fund, World Vision Canada and others. The editorial content of the *Annual Review* does not necessarily reflect the views of the contributors or the sponsors of the project.

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the Diamonds and Human Security Project

Design: SUM Incorporated

ISBN: 1-894888-78-2
Diamond Industry Annual Review: Republic of Angola 2005