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THE ECONOMIC CRISIS IN RUSSIA AND ITS IMPACT ON THE GLOBAL DIAMOND BUSINESS

Introduction

The third millennium is marked by radical changes in the global diamond industry. Since 2000 the company De Beers, the then world leader in the diamond mining, was transformed into a closed joint stock company, and ALROSA, on the contrary, since 2011 became a public company. At this strategic changes in the structure of two leading diamond mining enterprises have not ended, but rather entered a new phase. The whole world diamond business was shocked in 2013, when the Oppenheimer family sold its 40 percent of De Beers shares, having stopped its nearly a century of ownership of this business, to a holding company Anglo American for 5.3 billion dollars. However, having both ends of diamond pipeline and indirectly controlling the world's largest diamond mining company (through Anglo American, in which the family owns 2% of shares), they continue to manipulate the global diamond business, and the very well invented and having become legendary motto of De Beers company — «a diamond is forever» (diamonds are forever) remains.

This event significantly changed the existing situation in the structure and organization of world diamond market. The company Anglo American, having control over De Beers, in the future can more flexibly and mobily, depending on the state of commodity markets, to reallocate the received proceeds into more profitable segments and thus maintain stability in times of crisis [1, 2].

In October 2013 an IPO of shares of OJSC «ALROSA» took place, as a result of which more than 60% of shares went to investors from the US, 24% — from Europe and 14% — Russian. Taking into account the deepening economic crisis of Russian economy, one can say that the IPO of ALROSA company was timely and carried out at a high enough price. The total amount of transaction amounted to 1286 million USD, of which 562 million USD from the privatization of shares Russia and Yakutia received, and 162 million USD the company itself [3].

Main part

The diamond mining industry still remains the leading branch of industry of the Republic of Sakha (Yakutia). 4 enterprises of ALROSA group dealt with the diamond mining in 2013, which sold diamonds worth 4.7 billion USD (**Table 1**).

In 2014 by physical volume of diamond mining the «ALROSA» group retained the world leadership, which was achieved in the period of overcoming the economic crisis of 2008-2009, in terms of volumes of diamond mining. At the same time it should be noted that earlier the «ALROSA» group through its subsidiary OJSC «Diamonds Anabara» acquired 100% shares of OJSC «Nizhne-Lenskoe», which allowed to increase the mineral resource base of «ALROSA» by

Fundamental changes in the world diamond mining industry has touched the largest companies. Anglo American gained control of De Beers, and in October 2013 the company held an IPO of shares of OJSC «ALROSA». We can say that it is timely and carried out at a sufficiently high price, given the deepening economic crisis in the Russian economy.

In the Republic of Sakha (Yakutia) diamond production in 2013 was engaged in 4 companies of the ALROSA group, which sold diamonds worth 4.7 billion dollars, which allowed us to maintain leadership in physical volume of mining group ALROSA reached in the period of overcoming the global economic crisis of 2008-2009, the world leader in terms of diamond mining.

The share of the world's largest companies in diamond production in 2013 amounted to 73.8% in physical volume and 81.9% of the cost. Based on these proportions defined the world's diamond production, and using a three-factor chart analysis world almasoudi and evaluations of the condition of the segments of the diamond business forecast made further changes of segments of the global almasoudi on prospect before 2030. The world's diamonds will be 115–125 million carats per year, but due to the excess of demand over supply will continue to grow their value. Indicators lapidary industry and sales of jewelry diamonds will increase, but to a lesser extent, and the volume of diamond production in Russia, despite the crisis in the economy, should be preserved.

The creation of diamond mines in Yakutia will allow in the future to obtain significant profits from the sale of rough diamonds and polished diamonds and jewelry with diamonds, but with trading operations with them.

Keywords: diamond, diamond pipeline, brilliant, diagram, extraction, complex, industry, commerce, jewelry.

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26.4 million carats and additionally mine almost 2 million carats per year.

Thus, if the diamond mining of Catoca Ltd Mining Company in Angola is taken into account as well, in which OJSC «ALROSA» owns a third of holding of shares, then the group mined in 2014 more than 42.7 million carats of diamonds. By volumes of sales of diamonds the «ALROSA» group with Catoca becomes comparable with the De Beers company (**Table 2**). A schematic structure and ownership interest in the shares of diamond mining enterprises of ALROSA group are given in **Fig. 1**.

The portion of the world's largest companies in the mining of diamonds in 2014 amounted to 78.1% by physical volume and 93.8% by value. On the basis of these proportions the world mining of diamonds can roughly be determined in 2015.

The analysis of state of global diamond pipeline in 2006-2014 was performed with the use of three-factor diagram (**Fig. 2**).

The diagram shows the growth of diamond mining industry when almost reducing the portion of lapidary industry

Table 1. Mining and sale of diamonds of diamond mining enterprises of RS(Y) in 2011-2014.

No.	Enterprise	2011		2012		2013		2014		The share of enterprises in 2013, % <u>production</u> sale
		Diamond mining	Sale of diamonds	Diamond mining	Sale of diamonds	Diamond mining	Sale of diamonds	Diamond mining	Sale of diamonds	
		mln \$								
1	OJSC "ALROSA"	1961.6	3266.4	2047.9	3328.1	2094.1	3459.0	2715.2	3515.0	<u>74.34</u> 71.73
2	OJSC "ALROSA- Nyurba"	405.9	726.2	447.2	774.4	502.8	821.5	545.0	809.1	<u>14.92</u> 16.51
3	OJSC "Almazy Anabara"	175.4	244.6	153.1	347.5	180.2	310.8	195.0	281.0	<u>5.34</u> 5.74
4	OJSC "Nizhne- Lenskoe"	115.9	135.4	126.8	148.1	132.9	116.0	197.4	295.5	<u>5.40</u> 6.02
Total		2658.8	4372.6	2775.0	4598.1	2910.0	4707.3	3652.5	4900.6	100
According to: 4. 5. 6. 7.										

According to: 4, 5, 6, 7.

Table 2. Diamond mining by the world's largest companies in 2011–2014

	2011		2012		2013		2014	
	mln carats	mln USD	mln carats	mln USD	mln carats	mln USD	mln carats	mln USD
De Beers	31.33	6470	27.875	5500	31.2	6404	32.6	7114
ALROSA group (Russia) *	34.55	2579.4 / 4273.7	34.42	2684.4 / 4450	36.9	2943.9 / 4707.3	36,2	3770.7 / 4901
ALROSA group with Catoca *	41.30	3190.7 / 4885.0	41,12	3537.9 / 5029.4	43.5	3537.9 / 5301.3	42.7	4372.7 / 5503
BHP Billiton	2.065	1496	1.454	1050	–	–	–	–
Rio Tinto	11.73	726	13.122	741	16.027	852	13.872	901
Dominion Diamond Corporation **	2.6	279.2	2.67	290.1	2.90	345.4	2.983	751.9
Petra Diamonds	1.12	220.6	2.2	316.9	2.67	392.5	3.11	471.8
Total of 5 (6) leading companies	83.395	12382.5	88.441	11435.9	96.297	11531.8	95.265	13611.4
World diamond mining	123.99	14407	127.962	12644.5	130.482	14085.2	124.778	14495.8
Share of 5 (6) leading companies,%	67.3	85.9	69.1	90.4	73.8	81.9	76.4	93.9

According 4, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18,19.

* Diamond mining / sale of diamonds.

** Until 2012 Harry Winston Diamond Corporation.

Table 3. Global diamond pipeline in 2006–2015, Bn. USD

No.	Segments of diamond pipeline	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
1	Diamond mining	12.13	12.11	12.73	8.64	12.00	14.40	13.00	14.10	14.5	14.0
2	Production of brilliants	18.72	19.86	19.70	12.61	17.53	22.60	19.20	21.60	21.2	21.0
3	Sales of diamond jewelry	68.51	73.08	64.80	58.70	60.17	70.80	63.70	74.46	75.0	72.0
Total		99.36	105.05	97.23	79.95	89.70	107.80	95.90	110.16	110.7	107.0

According to: 20, 21, 22, 23.

Table 4. Prognostic values of global diamond pipeline in 2015–2030, Bn. USD

No.	Segments of diamond pipeline	2015	2020	2025	2030
1	Diamond mining	14	18	20	25
2	Production of brilliants	21	24	26	32
3	Sales of diamond jewelry	72	84	92	100
Total		107	126	138	157

since 2011. The portion of segment of sales of diamond jewelry in this period is about the value of 35%. The world financial crisis of 2009 cardinaly changed the ratios of diamond pipeline in connection with a sharp decline in parameters of the first two

segments of diamond market. Obviously, the lapidary industry is dependent on both the cost parameters of diamond mining, and the demand for the diamond jewelry and therefore most liable to crisis manifestations.

On the basis of this, as well as taking into account assessments of state of diamond business segments calculations of parameters of diamond pipeline in 2015 have been made (**Table 3**).

Results of diamond sales by the world's leading diamond mining companies in 2013–14 indicate favorable market trends of prices on the market of rough diamonds. In 2014 the value of diamonds on the world market has grown by an average of 7%. In this regard, the company De Beers

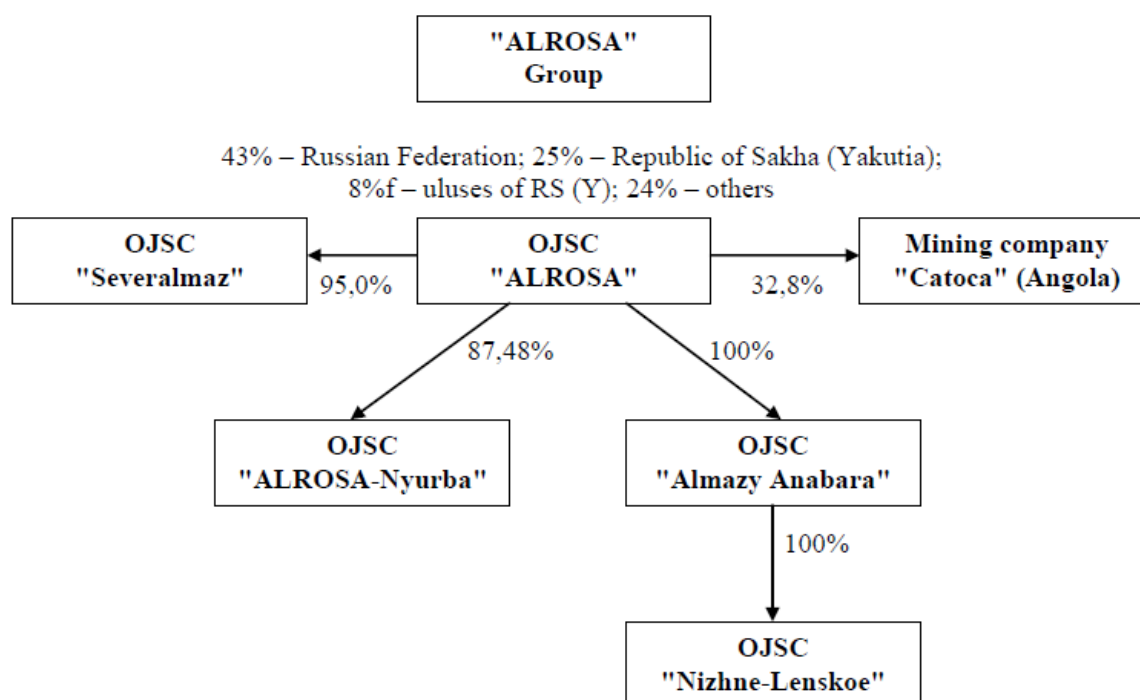


Fig. 1. Structure of diamond mining group "ALROSA"

sold diamonds worth 7.1 billion dollars and the ALROSA group for 4.9 billion dollars.

With the help of 3-component diagram, taking into account the crisis in the Russian economy and the political situation in the world, an improved forecast of future change of segments of global diamond pipeline for the perspective until 2030 has been made (Table 4).

The volumes of diamond mining in Russia, in spite of the crisis in the country economy, should be preserved, and the world mining will be 115–125 million carats per year, but because of excess of demand over supply the further rise in value of mined diamonds will happen, as the GDP growth takes place in the leading economies of the world: the United States and China.

Cost indicators of lapidary industry and sales of diamond jewelry will increase, but to a lesser degree. According to the forecast of authors the value of mined diamonds by 2030 will increase almost twofold, while the value of produced brilliants and the volume of sales of diamond jewelry only by two-thirds.

In Yakutia in recent years a project of creation of Special Economic Zone (SEZ) of lapidary and jewelry branches of industry was developed. However, it did not propose to create a diamond exchange, which was a significant drawback of this project. Targets for the period till 2020, put in it for the lapidary and jewelry branches of industry, were unrealistic. It

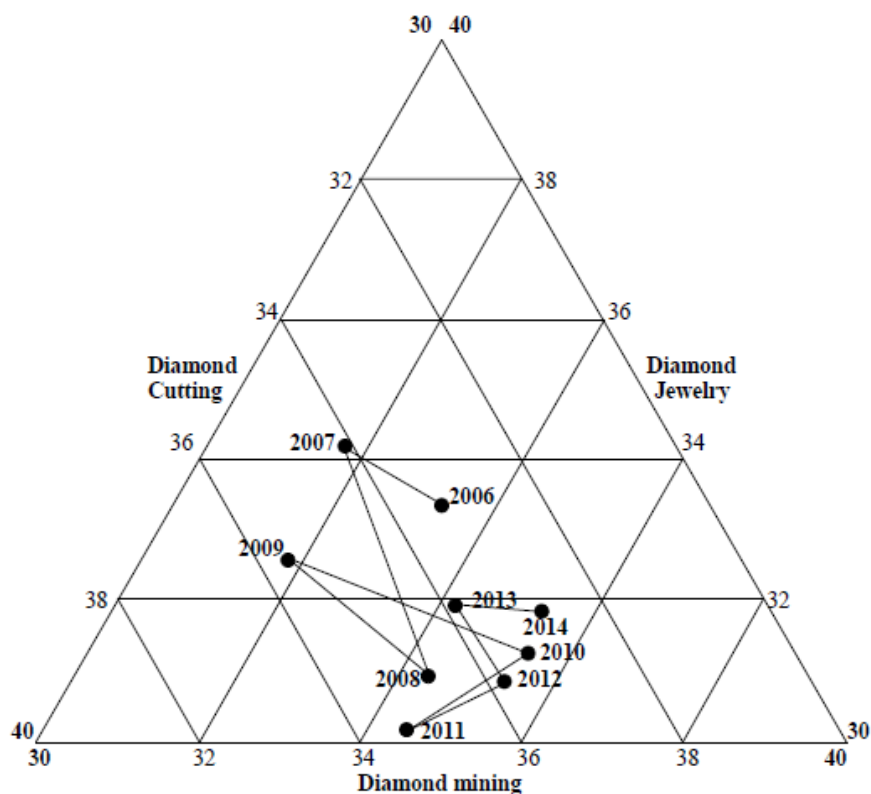


Fig. 2. Change of structure of diamond pipeline in 2006–2014

was obvious, if one takes into account the profitability of lapidary production and the instability of global diamond market. For the first time the question of creation of diamond exchange in Yakutsk at SEZ of lapidary and jewelry branches of

industry was proposed by the Department of Economics of subsoil use of Scientific-Research Institute of Regional Economy of the North of NEFU named after M.K. Ammosov in 2013 in recommendations for the Ministry of Economy and Industrial Policy of the Republic of Sakha (Yakutia).

In connection with the political events of recent times the question of creation of diamond exchange in Yakutsk became actually. This is related to the possible introduction of new economic sanctions from the European Union and the United States because of the Crimea addition and the development of situation around Ukraine. In this case the diamond trade through Antwerp and London Exchanges, through which the main stream of trade of Russian diamonds went, becomes problematic. With this in mind, one of the authors in circulation to the Plenipotentiary of the President of the Russian Federation in far Eastern Federal district Yuri Trutnev was justified the creation of a diamond exchange in the city of Yakutsk. However, due to the inconsistency of local leaders and the specialists from the diamond industry in the future, it was decided to create a diamond exchange in Vladivostok [24, 25].

In the context of the changing political and economic situation in the world, it would also be advisable the creation of a commodity exchange in Vladivostok for stock trading in oil, gas, coal and other commodities.

Conclusion

The growth of economic potential due to modernization and innovation in key branches of subsoil use of the Republic of Sakha (Yakutia) is the fundamental factor of competitiveness and socio-economic development of region. This should favor the development of other costly processing plants, as well as the traditional branches of economic management in the North, which will require large investments, what under the conditions of crisis of Russian economy will be a complex and actual question.

At the same time the active traditional functional structure of management will not only be maintained as a cementing basis of regional economy in the coming 25-30 years, but develop, using positive regional and international economic and integration factors.

The economic crisis brings in its corrections in the strategies of development of enterprises, branches of industry, businesses, certain markets and even states. In the next few years the Russian economy will have to catch up lost opportunities, which were under positive trends of prices of exported raw materials, and finally go to the innovative way of development. It is likely that in the near future the strategy of innovative development of diamond-brilliant complex of Russia will require a radical reorganization.

The establishment of a diamond exchange in Vladivostok will allow Russia in the future to obtain significant profits from the sale of rough diamonds and polished diamonds and jewelry with diamonds, but also of trading strategies.

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