



# Are Diamonds Forever in Namibia or Is it A Code Red?

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## The current state of the global diamond market and the increasing threat presented by lab-grown diamonds pose serious questions about the long-term viability of one of the pillars of the Namibian economy.

The latest results from Anglo American and De Beers have underlined once again the depressed state of the global natural diamond market. A combination of the hangover from Covid when the number of engagements and marriages fell dramatically, economic problems in what was the growing market for diamond jewellery in China, generational changes in attitudes towards diamond jewellery, the damage that Russia's full-scale invasion of Ukraine in 2022 has wrought on the image of natural diamonds as a symbol of love, and the increasing competition from Lab Grown Diamonds ("LGDs" or "synthetics") lie at the root of the current malaise. LGDs are real diamonds, chemically and structurally identical to natural diamonds. They have been classed as diamonds by the US Federal Trade Commission. They can be grown in a factory to any size up to around 40 carats at a fraction of the cost of a natural diamond using renewable energy to make them "green". All this should be of immense concern for Namibia which historically has been a world-class producer of gem quality diamonds.

### Diamonds Are Still Critical For Namibia

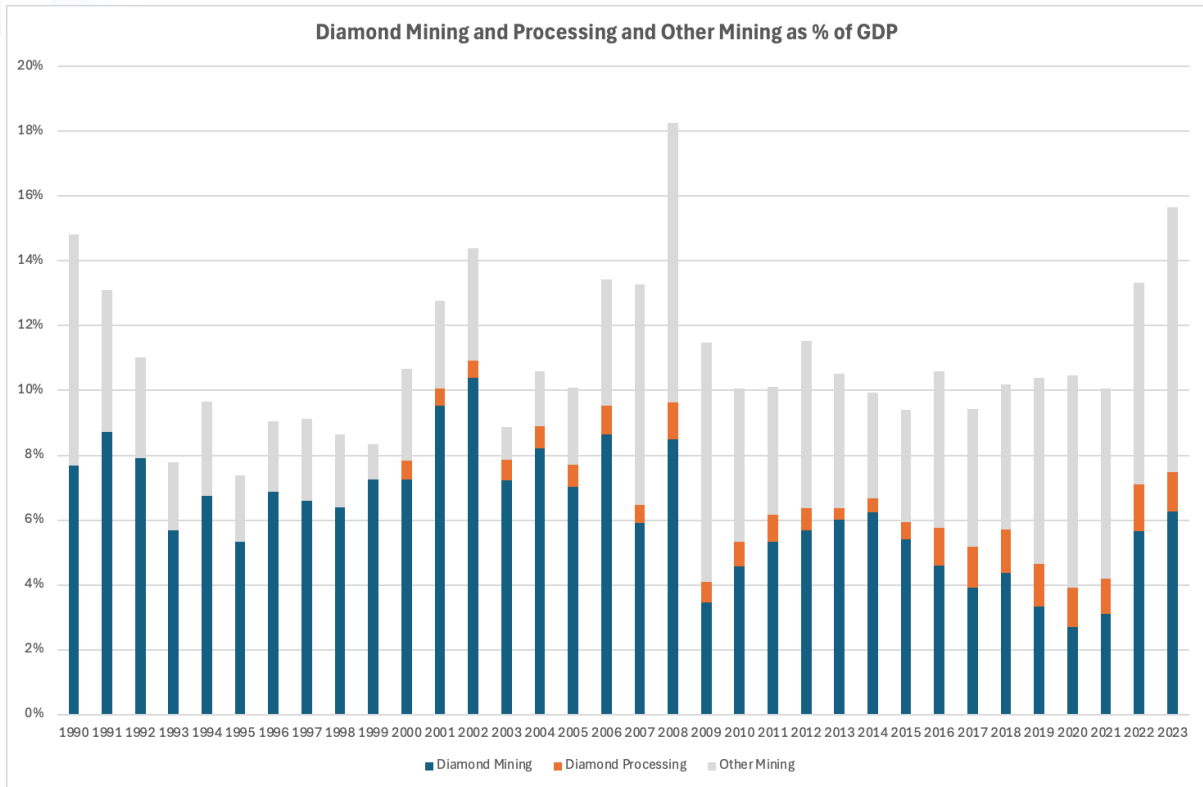
Since their discovery outside Lüderitz in 1908, diamonds have played a critical part in the economy of Namibia contributing to Gross Domestic Product ("GDP"), exports, tax revenue, employment and incomes. Although production from land-based mining operations in Mining Area 1 peaked in the mid-1970s, output since Independence has risen to match or surpass this level thanks to innovative approaches to mining ever harder to reach diamonds on land and to mining diamonds offshore.

The creation of the Namdeb 50:50 partnership between the Government of Namibia and De Beers in 1994 led to successive changes that have included the creation of NamGem (Namibia's first diamond cutting and polishing factory) in 1998, the establishment of De Beers Marine Namibia in 2001, the formation of the Namibia Diamond Trading Company (NDTC) in 2008, the restructuring of Namdeb to create Namdeb Holdings in 2011 with two wholly-owned subsidiaries Namdeb Diamond Corporation (for onshore mining) and De Beers Marine Namibia (for offshore mining). Even NAMDIA, which is entirely government owned and not part of Namdeb, relies exclusively on supplies of rough diamonds from Namdeb Holdings.

Throughout this period, Namibia's partner De Beers has itself undergone significant changes relinquishing its historic role as guardian of the global diamond industry at the end of the 1990s and moving to Supplier of Choice, calling into being the Kimberley Process Certification Scheme in 2000, delisting from the JSE in 2001 to become a subsidiary of Anglo American plc ("Anglo") after Anglo listed on the London Stock Exchange (LSE) in 1999 and having the Government of Botswana become a 15% shareholder, and seeing the Oppenheimer family exit the company in 2011 so that Anglo became 85% owner. During this time De Beers has continued to underpin the entire industry through its unique marketing and has also continued to innovate including in the area of LGDs. Despite competition from other mining companies, De Beers remains the world's pre-eminent diamond mining company and Namibia's partner of choice.

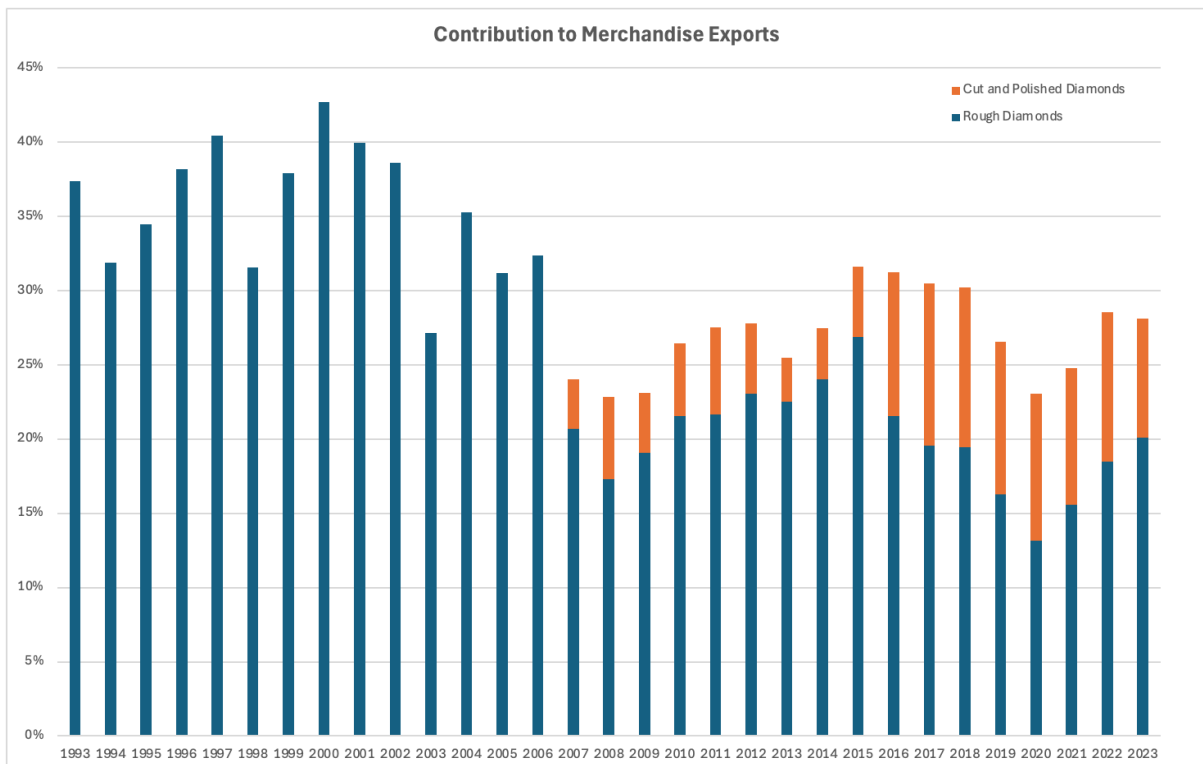
The Namibian economy has diversified since Independence but diamonds remain important directly contributing around 6% to GDP and almost 8% if diamond processing is included. These direct contributions exclude the indirect and induced contributions to GDP which, although unquantified, are likely to be significant.

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Source: NSA

Diversification away from diamonds is also visible in Namibia’s merchandise exports. Nonetheless, rough as well as cut and polished diamonds contributed almost 30% to Namibia’s overall exports in the past few years. A reduction or loss of these export earnings would have a significant impact on Namibia’s trade balance, overall balance of payments and foreign exchange reserves and undermine the ability to support the peg to the South African Rand which underpins Namibia’s entire monetary policy. According to the Bank of Namibia (“BoN”), diamond export earnings in 2023 were approximately N\$17.7 billion compared to foreign exchange reserves at the end of 2023 of N\$53.2 billion.



Source: NSA



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Over the years diamond mining has become vastly more capital and skill intensive and it takes far fewer workers to produce the same quantity of diamonds. Nonetheless, diamond mining has directly employed almost 3,000 people in the past few years. If employment at NDTC, diamond cutting and polishing factories, and NAMDIA are included Namibia's diamond industry directly employs around 4,000 Namibians.



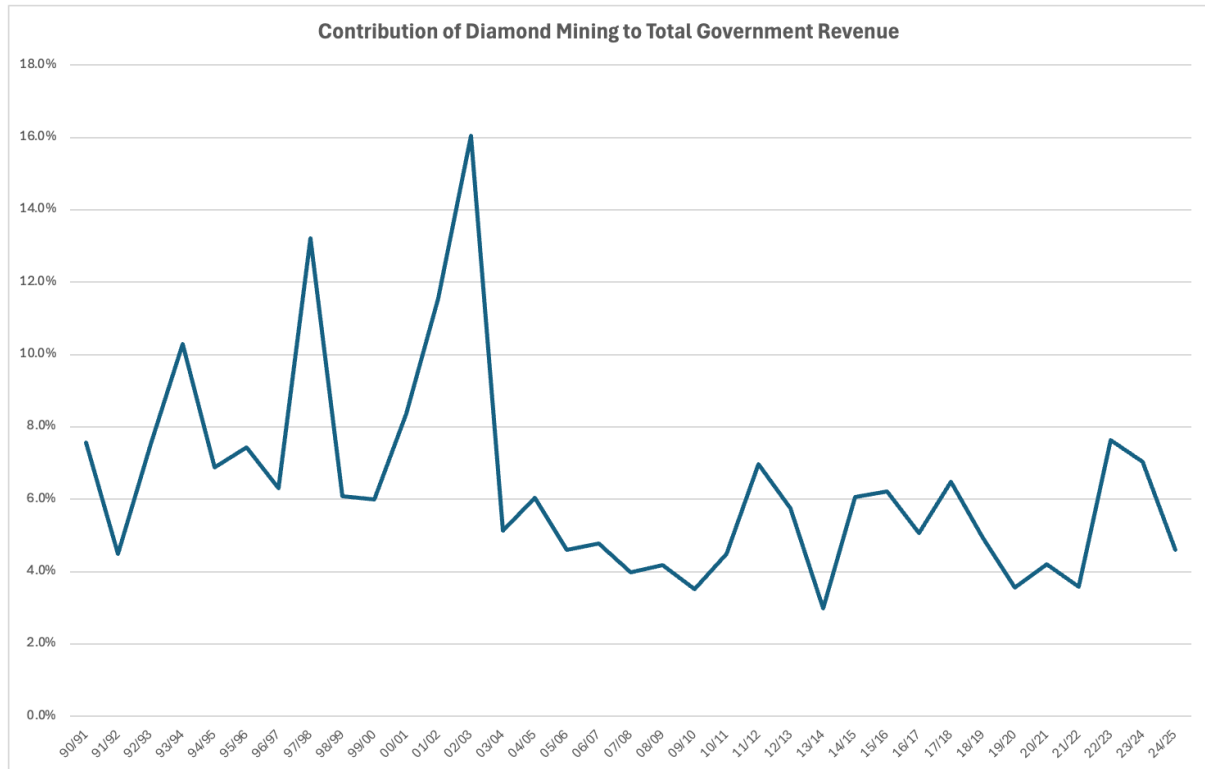
Source: Chamber of Mines of Namibia

Namibia's diamond industry has contributed significant amounts of revenue to the fiscus through diamond profits tax, diamond royalties, dividends from Namdeb as well as profits tax and dividends from NDTC and NAMDIA. Historically diamond cutting and polishing operations have enjoyed EPZ status and pay no corporate profits tax and this is likely to continue after the five-year transition which followed the ending of EPZ incentives in 2020. Overall revenues have declined in importance but continue to make a significant contribution. It should be stressed that the chart below excludes PAYE, VAT and other tax payments as well as tax payments from suppliers to the industry. The Mid-Year Budget Review FY24/25 massively revised down revenue from diamond mining companies but is optimistic about the next three years.

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### Mid-Year Budget Review Estimates of Diamond Mining and Diamond Royalty Revenue

N\$m	FY24/25 Budget	FY24/25 MYBR	FY25/26 Projection	FY26/27 Projection	FY27/28 Projection
Diamond Profits Tax	1,479	230	755	1,646	1,751
Diamond Royalties	1,787	1,586	1,544	1,731	1,842
Total Revenue	90,427	92,132	89,147	93,978	97,191



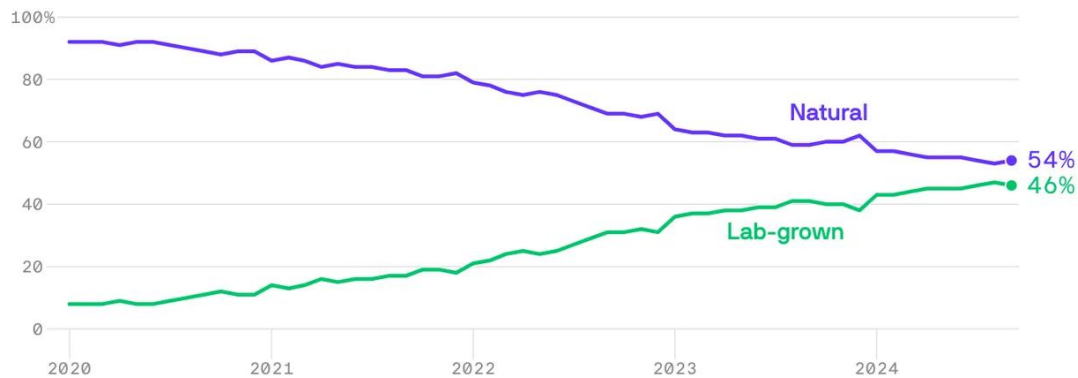
Source: Ministry of Finance

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## Lab-Grown Diamonds – Not As Straightforward As They Seem

### Volume share of natural and lab-grown diamonds sold in U.S. jewelry stores

Monthly; January 2020 to September 2024



Source: Tenoris and Axios Visuals

Tenoris and Axios, a diamond industry data company, have published independent research on the US diamond market, the world's largest for diamond jewellery, and this is reproduced here. It seems two things are happening at once: Lab-grown diamonds are getting more popular as they get cheaper, while people are spending more than ever on natural diamonds. Lab-grown diamonds are just as real as natural diamonds. They are just not as rare or unique. So the market has bifurcated, with roughly half of buyers preferring something perfect from a lab, and the other half still preferring something that maybe has romantic flaws.

For many years pre-pandemic (and pre-lab-grown diamonds), the average engagement ring cost somewhere between US\$3,200 and US\$3,600, according to Edahn Golan, the Managing Partner at Tenoris, a diamond industry data company. Today, while lab-grown diamonds are cheaper than that, natural diamonds are getting bigger and more expensive, with the average such stone so far this year selling for US\$6,628. As a result, the average diamond overall sells for about US\$4,600 — well above the normal level before lab-grown diamonds appeared on the scene.

Because lab-grown diamonds are becoming so cheap, buyers are no longer picking out the largest stone they can afford. There are lab-grown diamonds as large as 10 carats, but after a certain point they become unwieldy and impractical. Plus, people are less likely to see a truly enormous rock and believe it's a rare and valuable natural gem, so it will have less show-off value as a result. The revealed preference in the lab-grown market seems to be converging on diamonds just under 2 carats as the size buyers like the most. The average size for natural diamond engagement rings was 1.4 carats in September 2024, Golan says — about 50% larger than before lab-grown diamonds appeared.

Because lab-grown diamonds are so cheap to manufacture, they have essentially no secondary-market value. Which is to say, once you've bought one, you won't be able to sell it. For that reason, most other countries with a culture of buying diamond engagement rings still buy natural diamonds. They might not retain all their value, but at least they'll retain some of it.

And Lab-grown diamonds are only getting cheaper. The average lab-grown diamond was 1.2 carats and cost US\$3,887 in 2020. By 2024, the average size had grown 60% to 1.9 carats, but the average price had fallen by 30% to US\$2,657.

A lot of the difference between people who buy natural diamonds and those who buy the lab-grown version is generational. Older Americans grew up exposed to the legendary "a diamond is forever" marketing campaign, which ran from 1948 to 2008.



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A 28-year-old getting engaged today, however, will not have the same associations. Younger American men are also much more likely to go ring shopping with their soon-to-be fiancée, while pre-pandemic they were more likely to pick out a ring with the advice of, perhaps, her sister or best friend.

It turns out that while a woman's loved ones will generally try to persuade a man to spend more, the woman herself will often prefer to save the couple money that could be more fruitfully spent elsewhere. The bottom line is that frugal Gen Z-ers are happy with cheaper lab-grown diamonds. Older Americans are less likely to want to make the switch.

De Beers is well aware of all this and keeping close tabs on how the market develops. As a hedging strategy, the company launched its own LGD brand "Lightbox" in 2018 but last year, recognising the developments in the market outlined above, announced that it would no longer sell its LGDs for engagement and wedding jewellery. Furthermore, its "Element Six" business will streamline its three chemical vapor deposition (CVD) plants, merging them all into its US\$94 million facility in Portland, Oregon which will pivot into a technology hub that produces diamonds for industrial applications.

## The Current State of De Beers

As stated in the introduction, the diamond industry globally has been going through a slowdown because of a number of short-term but also long-term challenges. As a major player, De Beers has been deeply affected by these changes.

Anglo published its results for 2023 on 22 February 2024 in which it wrote down the value of De Beers by US\$1.6 billion to US\$7.6 billion and reported a 94% decline in overall profits to US\$283 million across all sectors. At the time Anglo CEO Duncan Wanblad told South Africa's Primedia:

"De Beers is absolutely at the bottom of a cycle and we've seen it before... and there's no doubt that as the world's GDP comes under pressure then the diamond business really does take the brunt, but it is cyclical."

These poor results were followed by an unsolicited bid by Australia-listed BHP in April 2024. Anglo has performed poorly since 2000 compared to its peers BHP and Rio Tinto. The bid from BHP was conditional on Anglo unbundling its South African iron ore and platinum businesses. Anglo walked away from what ended up being a US\$39 billion bid on 29 May 2024 after the bid deadline had been extended. One outcome of the failed bid was to force Anglo to take action not only on its South African iron ore and platinum assets but also on De Beers. In a media release of 14 May 2024, Anglo stated the following:

*"De Beers – To be divested or demerged, to improve strategic flexibility for both De Beers and Anglo American."*

*De Beers unveiled its "Origins" marketing initiative at the JCK International Jewellery Trade Show in Las Vegas on 31 May 2024 in a bid to reinvigorate the market for natural diamonds.*

*Anglo published its results for 2024 on 22 February 2025 in which it wrote down the value of De Beers by a further US\$2.9 billion. Wanblad stated:*

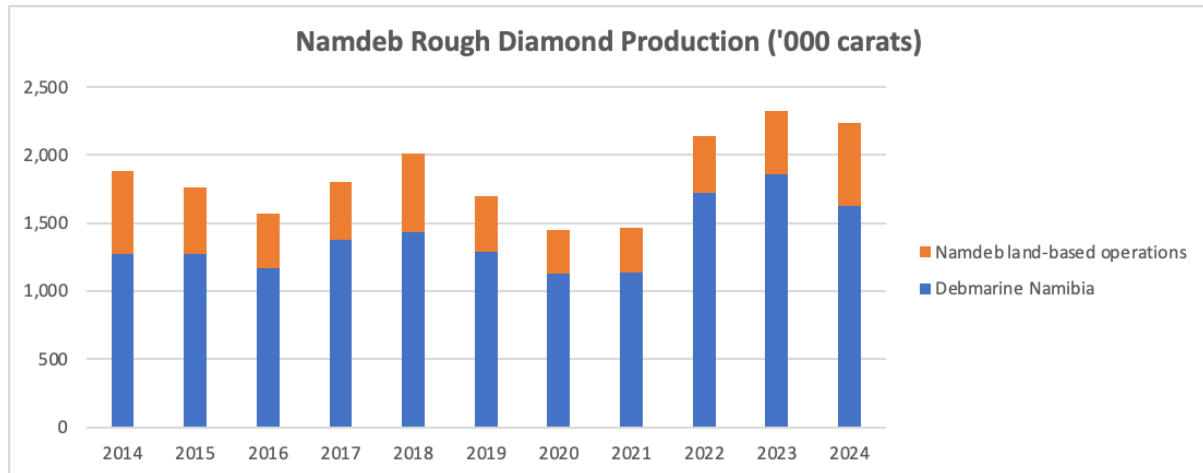
*"The work to separate De Beers is well under way, with action taken to strengthen cash flow in the near term and position De Beers for long-term success and value realisation. Given prevailing diamond market conditions, we have reduced our carrying value of De Beers by US\$2.9 billion."*

*Diamond output declined 22% to 24.7 million carats compared to 2023. De Beers says it expects to produce between 20 million and 23 million carats in 2025 as the market remains subdued. However, it will increase that amount over the following two years in anticipation of a recovery in demand. In 2026, it projected output of between 26 million and 29 million carats, while in 2027, it expects to recover 28 million to 31 million carats.*

Worth noting is that while overall output at De Beers declined by 22%, output in Namibia declined by just 4%, mainly from reduced offshore mining by Debmarine Namibia. Clearly Botswana and to a lesser extent Canada bore the brunt of the cuts in production. IJG is bearish on the outlook for diamonds in 2025 and expects a 10% cut in Namibian production, mostly in offshore mining which will represent a significant drag on growth (please

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refer to our report IJG Economic outlook 2025 for more information). However, if production remains unchanged from 2024 that will be sufficient to raise Namibia's GDP growth rate from 3% to 4% such is the continued importance of diamonds.



Source: De Beers

To put the recent write-downs in perspective, Anglo's current value of De Beers is US\$4.1 billion while the Oppenheimer family received US\$5.1 billion for 40% of De Beers in 2011 suggesting the company was then worth around US\$12.75 billion.

#### On the question of LGDs, De Beers had this to say:

*"Lab-grown diamond wholesale and retail prices continued to fall throughout 2024 as the bifurcation from natural diamonds progresses, with acceleration in the second half of the year. In the lead-up to the holiday season, a number of US retailers, including Lightbox, introduced deep discounts on lab-grown diamond jewellery amongst increased competition, with some retailers also including disclaimers for their customers that lab-grown diamonds may not hold their value over time. Falling lab-grown diamond retail prices have meant jewellery retailer financial incentives are increasingly shifting in favour of natural diamond jewellery. While there are positive signs that the impact of lab-grown diamonds on demand for natural diamonds is peaking, average lab-grown diamond retail prices do not yet fully reflect the fall in wholesale prices, so retail prices are expected to decline further. While a proportion of natural diamond demand continues to be affected in the near-term by lab-grown diamonds as a result of prevailing retail margins, such margins are expected to be unsustainable in light of increasing lab-grown diamond supply volumes, greater levels of competition, and growing consumer awareness of lab-grown diamond price trends."*

#### What Will Happen To De Beers?

But the last two years beg the question, what will happen to De Beers? And if De Beers is separately listed or sold to another buyer, what will happen to Namdeb? The world of diamonds seems to be remarkably void of suggestions on who might buy De Beers. Other mining companies do not seem interested. De Beers is as much a marketing company as it is a mining company. A buyer from one of the Gulf States is being touted but with precious little evidence to support it. China is an important diamond market and India is the centre of the world's diamond cutting and polishing industry. Russia is the world's largest producer of rough diamonds. All three countries have good relations with the Government of Namibia. But would western consumers want to buy their symbols of love from a company owned by these countries? Anglo is tight-lipped and might simply be hoping to better manage cash flows and wait for the market to turn. While it is true that De Beers has faced many enormous challenges since its creation in 1888 and always pulled through stronger, it has never faced the long-term challenge of LGDs.

What options does Namibia have? Unlike the Government of Botswana, the Government of Namibia is not a shareholder in De Beers only in Namdeb. While in earlier times Namibia attempted not to put all its eggs in the De Beers basket (by encouraging the entry of Namco, ODM, TransHex, Samcor and others), only De Beers has survived the storms that have taken their toll on the global diamond market since the early 2000s. If De Beers were to be "divested or demerged" Namibia would have three main options:

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1. Go along with the sale and hope that the new owners would remain committed to Namdeb. Namibia would hold a strong card in that its diamonds are the highest quality diamonds in the De Beers portfolio. However, they are also the costliest to mine. Furthermore, it is by no means clear a new buyer would continue to support a local cutting and polishing industry in Namibia.
2. Opt to find a separate buyer for Namdeb (either Namdeb Holdings as a whole or Namdeb Diamond Corporation and Debmarine Namibia separately) as part of the divestiture or demerger. Anglo and De Beers would probably be reluctant to see this happen as Namibian diamonds make **an important contribution to the mix or** aggregates sold to sightholders. Although Namdeb sells 15% run of production through NAMDIA, 85% are effectively sold through De Beers channels.
3. Try and engineer a buy out with Botswana. The whole long-term thrust of diamond developments in Namibia has been to make Namibia more autarkic and less dependent on De Beers. Botswana's recently signed marketing agreement makes provision for 50% of Debswana's diamonds to be sold through Okavango Diamonds rather than through De Beers. Namibia's negotiations with De Beers on the successor to the marketing agreement signed in May 2016 are due to kick off this year and every expectation is that they are likely to follow the path set by Botswana. Botswana sits on a significant sovereign wealth fund. Namibia does not. What Namibia definitely does not need is for NAMDIA to damage its reputation as a source of clean and responsibly managed diamonds.

Any new buyer would want clarity on two issues specific to Namibia: what costs would it be taking on regarding mine rehabilitation in Mining Area 1, and what responsibilities would it be taking on regarding the town of Oranjemund? Mining operations in Mining Area 1 have been taking place since the late-1920s. Although Namdeb has rehabilitated certain mining sites, such as the Bogenfels Pocket Beach, much remains to be done. However, there is no estimate of cost in the public domain but it is likely to run into billions of Namibia dollars. Oranjemund became a Namibian town in 2011 and has slowly started to diversify and wean itself off dependence on Namdeb. However, the announcement of a new long-term mining plan in 2021 envisaging on-shore mining until 2042 gave the town a stay of execution. The closure of on-shore mining operations would undoubtedly have severe repercussions for the eighth largest town in Namibia.

A divestiture or demerger would likely mean Anglo would delist from the NSX as it is only listed here by dint of the presence of De Beers in Namibia. That would represent a major blow to the NSX.

Matters are further complicated if the US decides to drop sanctions against Russian diamonds. Russia has long been the world's largest diamond producer by volume and floods of Russian diamonds have historically had major effects on global prices, notably in the aftermath of the Russian Revolution in 1917 and the collapse of the Soviet Union in 1991.

But overhauling all this is the question of whether natural diamonds will continue to have mass appeal to consumers. Will consumers continue to opt for natural diamonds when they can buy a LGD of virtually any size for one tenth of the price? That is the key question that haunts the global diamond industry. And that haunts Namibia. For Namibia's diamonds it could be a code red.

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