

# Lucapa Diamond Mine Seeks to Top Angola's Biggest Producer

By Colin McClelland Jun 27, 2014 12:27 AM GMT+0800

[Lucapa Diamond Co. \(LOM\)](#) said it plans to start an Angolan mine in about two years that may surpass the country's biggest gem producer, Catoca.

The Lulo deposit about 700 kilometers (435 miles) east of Luanda, the capital, could be even more valuable than Catoca, the world's fourth-largest kimberlite mine, judging by stones that fetch an average of [A\\$6,960](#) (\$6,533) a carat Lucapa Managing Director Miles Kennedy said. That compares with about \$100 a carat that Catoca gems bring.

"Beyond doubt from what has washed off the kimberlites into the ancient river channels suggests that the prize once farmed and delivered is going to be substantial," Kennedy said yesterday in a telephone interview from Perth, [Australia](#), where Lucapa is based. "This is a long, scientific game and we're not trying to over-promote it at this stage, but the early finds are definitely there."

[Angola](#), the fourth-biggest diamond producer [by value](#), has cut taxes and reduced state ownership requirements as it seeks to rekindle the industry after the global financial crisis forced mines to close. New areas are opening for exploration as [Africa](#)'s second-largest oil producer rebuilds from a 27-year civil war that ended in 2002.

## Alluvial License

Kimberlite pipes are the underground remains of ancient volcanoes where almost all diamonds are formed. Only about 1 percent of the pipes contain gems. Alluvial stones are found on or near the surface after rivers erode the pipes.

Prices of the gems have risen 2.4 percent this year and were at \$8,122 on June 19, according to the Rapaport Diamond Trade Index. The gauge is formulated from the average asking price for the top 25 best quality 1-carat diamonds, color between D and H and clarity between internally flawless, or IF, and very small inclusion, known as VS2.

Lucapa should get a license to mine alluvial stones from the 3,000 square-kilometer (1,158 square-mile) Lulo concession by the end of this year, Kennedy said. It may hold 500,000 carats, according to company documents.

A license for the kimberlite pipe will come after more testing in the next two years, the managing director said. It's too early to determine output rates, he said.

## Gem Recovery

In May the company recovered four diamonds of “good shape and color” weighing 1.85 carats during the first two weeks of using a new processing unit, according to company documents. A carat is a fifth of a gram.

“The potential is there” to be bigger than Catoca, Kennedy said. “There’s no other prospect in the world which has been delivering diamonds of this caliber and value. None. Not one.”

Lulo lies about 150 kilometers from Catoca in the same geological formation, the Lucapa Graben, which sweeps from the Namibe province on the Atlantic coast in the southwest to the border of the [Democratic Republic](#) of Congo in the northeast.

The pipe being explored is one of eight on a short list from 250. At 220 hectares (544 acres), it’s almost four times the size of Catoca.

A June 16 investor note by Canaccord Genuity Group Inc. called the find “early days but immensely encouraging.”

Lucapa has 40 percent in the kimberlite mining venture, while the Angolan government’s Endiama EP has 33 percent and closely held Rosas e Petalas SA has the rest, company documents show. Exploration and production agreements with the government were extended two years to May, 2016, for both alluvial and kimberlite stones, according to the documents. Previous rules usually gave Endiama about half of most mines.

## Catoca Owners

Partner Rosas e Petalas belongs to Angolan lawyer Celso Rosa, who owned the concession from 2002 until it was put to tender by the government in 2008 to attract investors, Kennedy said. Lucapa has been prospecting the site for six years, he said.

[Sociedade Mineira de Catoca Lda.](#) runs the Catoca mine, which produces about 70 percent of Angola’s diamonds by volume. It’s owned by Endiama, OAO Alrosa, Odebrecht SA as well as a venture between [China](#) and state oil producer Sonangol. The mine produced 6.5 million carats in 2012, generating sales of \$575 million.

Angola produced 9.36 million carats last year valued at \$1.28 billion, behind Botswana, Russia and [Canada](#), according to the [Kimberley Process](#), an international group that works to stop the supply of so-called [blood diamonds](#) from war-zones.

## Sodiam Arrangements

Lucapa won’t pursue selling arrangements with Endiama and its marketing arm Sodiam similar to those that may increase stone prices from projects by Israeli billionaire Lev Leviev and Catoca, Kennedy said.

Leviev, an Israeli real-estate magnate, struck a deal with Angola allowing him to charge more for diamonds from his Luminas mine in the the southwest African nation on world markets

instead of at a discount to specified Chinese and Dubai traders, according to people with knowledge of the agreement.

“We are happy working within the confines of the Angolan system,” Kennedy said. “To suggest there might be a premium of 50 percent has not been evident to us.”

Angola is looking to soften restrictions that deter exploration and development after producers abandoned the country during the global financial crisis. [De Beers](#), the biggest producer, has cut back its Angolan operations, while BHP Billiton Ltd., Petra Diamonds Ltd. and Trans Hex Group Ltd. have also surrendered deposits.