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Current Support Brief

POSSIBLE SOVIET INTEREST  
IN INCREASING EXPORTS OF DIAMONDS TO THE US

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POSSIBLE SOVIET INTEREST  
IN INCREASING EXPORTS OF DIAMONDS TO THE US

Soviet trade representatives recently indicated that the USSR may be interested in selling annually US \$15 million to \$30 million of diamonds of gem and industrial grade to dealers in the US. 1/ The USSR has been exporting increasing quantities of diamonds to the Free World since 1960, but sales have been almost exclusively to the DeBeers diamond syndicate, which markets about nine-tenths of the world output of gem diamonds. The explanation for the Soviet interest at this time in sales to US dealers may be that the current contract between the USSR and DeBeers reportedly expires in September 2/ and that the USSR may be exploring other marketing channels for its diamonds.

1. Soviet Exports

Soviet sales of diamonds to the Free World have increased sharply since 1960, when the USSR reported that it sold 114,200 carats of gem stones valued at about US \$3.8 million to the UK 3/ (presumably to the DeBeers syndicate, with whom the USSR concluded its first sales contract in early 1960 4/). In 1961, Soviet sales to the DeBeers syndicate were reported to have totaled US \$15.5 million. 5/ The value of Soviet sales of diamonds in 1962 has not been announced, but the contract between the USSR and DeBeers for 1962 and 1963 reportedly allows for Soviet sales of gem stones up to US \$21 million annually. 6/

In addition to sales to DeBeers, the USSR sold very small quantities directly to the US in both 1961 and 1962. The diamonds sold to the US were cut diamonds, as opposed to the rough or uncut stones that reportedly are sold to DeBeers exclusively. Annual sales to the US were less than US \$100,000 in each year. 7/

2. Soviet Diamond Supply

Production of diamonds in the USSR has been increasing since 1958, when the first diamonds were recovered on a commercial scale from the

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Mir deposit in Yakutskaya ASSR. At the present time, three large lode deposits, including the Mir, and many placer deposits are being exploited. Production of diamonds is estimated to have been on the order of 3.8 million carats in 1961, or about 10 percent of total world output, and 5 million to 6 million carats in 1962. Production by the leading diamond-producing countries in the world in 1961 is shown in the following tabulation 8/:

<u>Country</u>	<u>Amount</u> <u>(Million Carats)</u>
Republic of the Congo	18.1
USSR	3.8*
Union of South Africa	3.8
Ghana	3.0
Sierra Leone	3.0
Guinea	1.2
Angola	1.1
All others	3.0
Total	<u>37.0</u>

<sup>9</sup> Diamonds of gem grade, which the USSR is believed to have exported in the past, are produced as a coproduct with industrial-grade diamonds. Reportedly, between 10 and 20 percent of total diamonds produced in the USSR are of gem grade. 9/ Although most of the gem diamonds are surplus to the Soviet economy, some grades of industrial diamonds are still in short supply, and substantial quantities are being purchased from the Free World. In 1961, COCOM countries reported that they sold a total of US \$8.1 million worth of industrial diamonds to the USSR. 10/ In addition, some diamonds probably were obtained from non-COCOM countries, and some probably were smuggled. Before 1958, when the COCOM embargo on the export of industrial diamonds to the USSR was lifted, the USSR had to depend on smuggling from sources in the Free World for most of its relatively small

\* Estimated.

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supply. With the lifting of the embargo, the USSR began to buy industrial diamonds from diamond dealers in the Free World, and Soviet purchases have increased each year, from 325,000 carats in 1959 to 700,000 carats in 1961. 11/

These purchases of industrial diamonds are believed to have consisted largely or entirely of higher quality industrial stones rather than low-grade material classified as bort, splints, and powder. Low-grade material may now be in surplus supply in the USSR, for the Soviet trade representatives have indicated that bort as well as gem stones would be offered for sale in the US. The apparent surplus may be due to a temporary bottleneck in the diamond tool industry or perhaps may reflect Soviet progress in production of synthetic diamonds.

The USSR recently announced that it succeeded in manufacturing its first synthetic diamonds in 1961 and that synthetic stones would eventually account for an important share of the consumption of industrial diamonds. 12/ Synthetic diamonds have been manufactured in the US for some time, but their use has been limited by their relatively high cost. In the USSR, however, because of the very high cost of mining natural diamonds in Yakutsk, production of synthetic diamonds probably would not appear so disadvantageous. It therefore seems reasonable to expect that the USSR will expand its synthetic production appreciably, although at present it must continue to rely on its Yakutsk deposits or on imports for large-size industrial stones, which as yet cannot be produced synthetically.

### 3. Prospects

Plans for production of diamonds in 1965 call for a level of production 15 to 16 times that in 1958. 13/ This goal is believed to be approximately 10 million carats, of which roughly 1 million to 2 million carats (with a probable value of from US \$30 million to US \$60 million) would be of gem quality and presumably available for export. Even if this goal is not reached, it appears likely that through 1965 Soviet exports of gem stones will continue to increase above present levels. Sales of industrial diamonds, particularly of bort, may add appreciably to the total.

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Soviet plans for production after 1965 are not known. Planning could be influenced significantly by expansion of production of synthetic diamonds, especially if the USSR is able to develop a method for synthesizing larger stones at reasonable cost. The effect of a shift to the greater use of synthetic diamonds might be to slow down the expansion of the natural diamond fields. In this event, output of surplus gem stones might not increase appreciably beyond the level expected in 1965.

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Analyst:

Coord:

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