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National interests above ideology: Soviet diamond deals with South African De Beers cartel during the Cold War

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Russian connections with South Africa have a long history, they existed before the 1917 revolution and continued afterwards. Since the mining boom when the golden and diamond “fevers” started in South Africa in the second half of the XIX century there was a flow of Russian immigrants aspiring to start a new life there. Some Russian mining engineers studied exploration of natural resources in the South of Africa similar to those found in Russia. In the Anglo-Boer war of 1899-1902 hundreds of Russian volunteers fought on the side of the Boer republics against the British army. On the eve of that war Russia established diplomatic relations with the Republic of Transvaal. All this helped future contacts when they became necessary.

Active contacts and business cooperation started after the Bolshevik revolution and establishment of Soviet power, when De Beers helped to legalize and trade on the world market huge amounts of diamonds and other treasures confiscated from former owners in Russia. This cooperation mainly via London flourished in the 1920-ies and later faded away or was concealed only to be resumed in 1950-ies when USSR needed an export market outlet for its newly discovered Yakut diamonds produced in mass and growing quantities. It is interesting to note that since late 1950-ies till the end of the Cold War, the Soviet Union being nominally under Western sanctions, financed its economic and technological renovation inter alia through only slightly concealed multi-billion trade (thoroughly regulated by detailed agreements) with a leading

company of the staunchly anti-communist apartheid regime of South Africa, also subject to sanctions, that was at the same time attacked by Soviet-backed African National Congress and its communist allies. Soviet deals with De Beers were certainly no secret for British intelligence observing cargo shipments by Aeroflot. Pragmatism coexisted with ideological barriers and occasionally overcame them.

It is beyond our reach to prove conspiracy theories about ties of Bolsheviks since Lenin and Trotsky with world financial oligarchy, but there is little doubt about their existence. It is known that Leo Trotsky was financed and delegated to Russia in 1917 by American bankers. He used to say that greatest revolutionaries sit on Wall street. Lenin had German financial backing and political support. Returning to our topic, Soviet exports or smuggling of large parties of gemstones confiscated from Russian aristocracy and church effectively took place (and were protected from court suits by former owners) since the early 1920-ies reaching a peak in 1930 via different channels in the capitalist world, primarily through cooperation with the South African diamond cartel De Beers. De Beers was founded by in 1888 by Cecil Rhodes, who was financed by the the London-based N.M. Rotchild and Sons bank.. In the 1920-ies De Beers was headed by Ernest Oppenheimer, who had earlier (1917) founded the South African gold mining giant Anglo American corporation supported by American financier J.P. Morgan. Oppenheimer family built and consolidated De Beers global monopoly over the diamond industry. Until the start of the 21st century, De Beers effectively had total control over the world diamond market.

In the 1920-ies De Beers already controlled diamond production and a large part of the world diamond trade. Since the Bolsheviks took power in 1917 huge amounts of treasures were confiscated from Russian

aristocracy, bourgeoisie and church institutions, smuggled and sold abroad legally and most part illegally dumping the world diamond market. The flow of confiscated diamonds from Soviet Russia was really enormous so that De Beers, at that time already a main world producer of the stones, had to cut production of its diamond mines in South Africa by a quarter in 1921 in order to stop the slump of market prices. This downfall of world prices also did not please the Bolsheviks who needed more and more money to promote the world revolution. Leonid Krasin who headed the Soviet diplomatic mission in London in 1920 proposed to sell diamonds via De Beers to guarantee maximal profits via a joint cartel with a strong monopolist. Agreement was quickly reached. A “Joint Soviet-South African trading society” was created to substitute smuggling with legal trade relations, dumping was stopped and since 1922 the De Beers mines resumed normal production. It is also interesting to note that the first trade agreement of Soviet Russia with the UK concluded in 1921 gave Soviet traders of robbed treasures special guarantees from legal persecution from court suits by former owners thus covering trade of stolen property – a classical example of hypocrisy and double standards. An agreement concluded by ARCOS (All-Russia Cooperative Society) company (established in 1920 in London by Leonid Krasin) directly with De Beers in 1923 regulated an orderly export flow of diamonds confiscated by Soviet authorities during the period of “Red terror” from private owners and institutions of the Russian orthodox church. ARCOS became the first of a series of similar companies (Amtorg in the USA, Westorg and Derutra in Germany etc.) that controlled the orderly flow abroad of, to put it bluntly, stolen treasures in the interests of Bolshevik and world communist (Communist International – Comintern) hierarchy. The world communist revolution failed but formal and informal ties with structures of transnational capital remained and helped future Soviet

industrialization and creation of the countries military-industrial complex. Expropriated diamonds turned into startup capital of numerous private companies around the world with USSR as a final beneficiary, supported credit lines, investments via third parties in shares of leading world industrial giants etc. This network continued to serve Soviet interests during the Second World War and the Cold war. Behind this strange cooperation of antagonists some analysts see conspiracy of global “behind the curtain” structures such as Masonic lodges or the “Round table” created by sir Cecil Rhodes together with Rotchilds and Morgans. To support or deny such claims is beyond our means, but we know a number of informal groupings of world elites such as the Bilderberg club etc., that are generating geopolitical programs later implemented by formal national and international institutions.

Ties with De Beers established in early 1920-ies as well as industrial and military cooperation with Germany in 1920-1930-ies helped USSR to implement its industrialization program for which industrial diamonds (diamond drilling stones for geologists, diamond die stones to produce precision parts, diamond abrasives etc.) were of vital importance also for the production of sophisticated armaments. All this went parallel to systematic prospecting of Russian own diamonds, but until the end of 1940-ies only small scale extraction could be started in the Ural mountains.

The first diamonds were found in Yakutia (Siberia) in the basin of Vilui river in 1949 and intense geological prospecting of the area was organized. When significant primary deposits of diamonds were found there between the Lena and Yenisei rivers (kimberlite pipes Zarnitsa in 1954, Mir and Udachnaya in 1955) mass production of Soviet diamonds started since 1957 (Yakutalmaz state enterprise based in Mirny settlement), covering not only internal needs but also promising new

important export revenues. Then the second and most productive and large scale stage of Soviet cooperation with South African De Beers company began. The Soviet government and De Beers confidentially agreed on a new and more profound cooperation (about 10 three-year agreements since 1959) to guarantee exports of Soviet uncut diamonds. The first agreement was signed on October 29, 1959, by Souzpromexport agency of the Soviet ministry of foreign trade and De Beers subsidiary Diamond Corporation Ltd. Initially direct, cooperation was later conducted to avoid international protests via a switch-dealer company City and East-West Ltd., registered in London. Such partnership patronized by then Soviet prime minister Alexei Kosygin provided an important hard currency flow helping both sides to avoid sanctions and modernize their economies and particularly to develop the Soviet diamond-brilliant complex. Pragmatism prevailed over ideology and political risks. As my colleague from the Moscow Institute for African studies Inna Tcherkasova put it, “in spite of appeals of the world community to implement sanctions against the apartheid regime, the Soviet Union that was following this policy in other fields, in this particular case remained a faithful and reliable partner of De Beers for more than 30 years. Cooperation under the veil of secrecy followed well-trodden rails bringing profits to both sides” (Tcherkasova, p.19). Some small part of the diamond revenue might have been transmitted to the anti-apartheid fighters, who anyway, could cause little harm to the South African white minority state that was never conquered militarily or economically but just did not survive the end of the Cold war.

When in 1949-1951 first diamond deposits were discovered in Yakutia the Soviet authorities planned to exploit them according to usual labor camp schemes of the time. Extraction of diamonds was already under way in the Urals where 3 thousand Gulag slaves worked in

“Kusinlag” since 1946. Creation of “Vilyilag” was projected on similar lines by the Ministry of internal affairs in 1952. But in 1953 Stalin died and dismantling of Gulag labor camp system began. In 1953-1956 the total number of GILAG laborers decreased from 2,5 to 1 million, 15 industrial directories of the ministry of internal affairs were closed. Great deposits of Yakut diamonds were to be exploited in a principally different way. No more forced labor, free personnel with decent salaries, new industrial infrastructure and residential settlements – all this in spite high initial expenses provided necessary impetus for quick development of a new branch of national economy.

Starting from 85 thousand pounds (about 150 thousand \$) in 1959 , contracts of the 1980-ies already guaranteed an annual sale of Soviet diamonds amounting to 1,2-1,5 billion \$. To avoid criticism from anti-apartheid organizations since 1963 the Soviet side signed contracts with a separate company – switch dealer “City and West-East Ltd” registered in London that was an intermediary, later dealing directly with De Beers Central sales organization (CSO). Yet this cooperation was not unnoticed in the United Nations (from discussions on the Third UN Committee on Social, Humanitarian and Cultural Affairs on 12 October 1981):

“The Soviet Union... is a full partner of South Africa in the marketing of diamonds. The Soviet Union markets its diamonds through a cartel known as the Central Selling Organization. The CSO controls the world diamond market and, in turn, is controlled by De Beers Ltd. Of South Africa. Both the Soviet Union and South Africa market nearly all of their diamonds through this cartel. Since 1976 the Soviet Union has marketed more than half a billion dollars annually through this South African controlled cartel, which sells virtually all the USSR’s rough diamonds that are sold outside the Soviet block” (Davidson and Filatova, p.232).

The irony of the situation, as prominent Russian historian Dr. Apollon Davidson notes, was in the circumstance that part of this joint profit was directed to subvert one of the partners (RSA regime). Surely

this was not exceptional in the cynical world of global politics and also useful to save the anti-racist reputation of USSR. Beyond any doubt the Soviet Union cooperated with a leading South African company for such a long time not from attraction towards apartheid or western imperialism. Ideological antagonism (where both sides were neither angels nor devils) was occasionally overwhelmed by pragmatism and concern about national well-being . Independent introduction into the world market of big parties of Russian diamonds could cause a drastic fall of world prices as it already happened in early 20-ies through the uncontrolled flow from our country of confiscated diamonds. The main Soviet economic strategist of the time PM Alexei Kosygin was impeded in most his endeavors by party bureaucracy but in this particular case he had a free hand to act in the spirit of future Deng Xiaoping reforms; “no matter what is the color of the cat, only important is its ability to catch mice”. Besides pragmatism of deideologization, nostalgia for pre-revolutionary Russia became the spirit of time. Soviet-style quasi-religious atheist communist ideology enslaving both body and soul was dying after the 1956 XX-th CPSU congress revelations about the crimes of Stalin and the enormous human price of the “Red project”. We can only guess whether beyond pure pragmatism there were remnants of past Russian sympathies towards the brave Boers with whom our volunteers sided during the Anglo-Boer war with British imperialism.

When following the end of the communist era Soviet secrets were disclosed in 1990-ies, the former top-manager of the USSR diamond industry (Head of “Yakutalmaz” and “Glavalmazoloto” state corporations) Valery Rudakov in an interview with “Commersant” newspaper (23.03.1996) recollected:

“The monopoly system of diamond trade created by de Beers in 1930-ies was extremely beneficial for diamond producers and protected

diamond mines that are very capital intensive projects from any crisis and price volatility by dictating prices... Behind all our philosophy of building relations with De Beers was the head of the Soviet government since the 1960-ies Alexey Kosygin, who new industrial and particularly diamond industry problems perfectly well. As head of “Yakutalmaz” corporation, the main producer of diamonds in our country, I reported to Kosygin twice a year, and PM played a very active role in all decision making concerning the industry till his departure in 1980. Later similar matters were under control of Prime minister nikolai Ryzhkov. Direct negotiations with De Beers counterparts only exceptionally included high level meetings (I witnessed meetings of Niki Oppenheimer with Soviet PM Valentin Pavlov) but were routinely conducted on the Soviet side by Heads of “Almazyvelisexport” foreign trade association (Evgeny Monahov, Victor Sineev and Ivan Alexeev in 1970-ies and 80-ies), and at the end of 1980-ies when “Almazyvelirexport became part of “Glavalmazoloto” association, intensive dealings with De Beers in Moscow and London were exercised by me as General director of Glavalmazoloto. We regularly reported progress of negotiations to the Soviet government and when a new 3-year agreement was ready, we formulated the coordinated proposals to the “narrow” Cabinet (PM, finance minister, Chairman of the Central bank, minister of foreign trade etc.). The “narrow” Cabinet gave final acceptance to any agreement... De Beers was obliged to buy all Soviet-supplied diamonds and had no right to reject any sort of them”.

Multibillion revenues from diamond exports via De Beers stimulated diamond cutting and multiple other sectors of industrial progress and development in both USSR and South Africa and helped them withstand international sanctions. Part of the profits served R&D development and innovation. Limited but real exchange of scientific and

technological information existed between USSR and RSA that was of special importance during the Cold war. In particular, the head of De Beers Central sales organization (CSO) Sir Phillip Oppenheimer accompanied by South African geologists and engineers during his 1976 working visit to the Soviet Union explored a diamond mine in Mirny in Yakutia where the delegation recorded technological similarities and differences with South African diamond separation processes.

The economic fruits of Soviet diamond cooperation with De Beers during the Cold War were reasonably characterized by Western analysts as a “Russian miracle” (Duval D., Green T., Louthean R. *New Frontiers in Diamonds. The Mining Revolution*. L., 1996, p.43). High export revenues guaranteed by the South African cartel for three decades helped to exploit extremely rich but quite difficult to extract in severe conditions of Siberian climate deposits of Yakut diamonds, build a modern diamond cutting industry (“7 sisters of Kosygin” – seven diamond cutting plants, the main in Smolensk) and stimulate industrial progress in other branches of the economy. Only efficient global marketing (particularly spreading exports to Japan) helped De Beers keep high level world diamond prices when CSO was flooded by growing (till the second half of 1980-ies) shipments of Soviet diamonds.

To conclude: Initially started by GULAG slaves, the Soviet diamond industry developed into a technologically advanced branch of the national economy with relatively high salaries of free personnel and efficient management providing hard currency for rapid industrial development of USSR only interrupted by ageing partocracy being afraid of Kosygin’s reforms (“socialism with a human face”). Unlike today, when we witness financial strangling of R&D, scientists were a privileged class in semi-periphery – semi-core countries of Soviet Russia and South Africa (in the latter only whites) and that brought fruit through

involving both countries into the global technological revolution. In South Africa in spite of negative aspects of racial discrimination, industrialization was also successfully achieved. Economic and technological development was financially supported among other things by high world prices of polished diamonds protected from dumping by cartel agreements of South African De Beers with its second largest supplier - the USSR. For both countries – key providers of strategic minerals to the world market - international sanctions could never be total but proved a blessing in disguise, stimulating import substitution and local R&D.

Political change in USSR brought the end of the Cold War helping also to dismantle apartheid in South Africa. Advent of democracy generated big hopes in both countries but actually did little to improve and in some aspects even worsened the plight of the majority. Minor improvements were accompanied by criminalization and general degradation in the grip of social inequality inevitable under neoliberal monetarist economic policies imposed by the so called Washington consensus, leading to stagnation and deindustrialization. The expression,- “state capture”,- currently popular in South Africa – meaning state power captured by stealing oligarchy – needs no special explanation in my country (recent victims of our stealing oligarchy, maximizing profits at the expense of human lives. In comparison with to-days pitiable performance - a systemic crisis bringing general sinking into backwardness by both countries (in Russia with the only exception of the reviving military-industrial complex) - South Africa under its “dreadful” apartheid and USSR during its controversial “ripe socialism” seem to look like legendary giants.

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