

Loss of Alrosa's Mir mine to increase rough diamond prices by up to 10% Exclusive



Thursday, 07 September 2017 12:30 PM ET

By James Morgan

The [shutdown](#) of operations at PJSC Alrosa's Mir mine due to flooding is expected to increase the price of rough diamonds by up to 10% by the end of the year, Maxim Khudalov, director of corporate rating group ACRA, told S&P Global Market Intelligence on Sept. 6.

Khudalov expects the international market to reflect the loss of Mir's supply with higher prices, stressing that diamonds are the only commodity to have remained flat since the beginning of the summer.

"Compared to coal, iron ore, steel and base metals price dynamics for the period, I would be expecting the price rise for rough diamonds to be at least 5% to 10% by the year end," he said, adding that this could improve EBITDA margins by between 5% and 7%.

Operations at the Mir pipe at Alrosa's [Mirny Division](#) were shut down Aug. 4 after floodwaters from the above pit mine cascaded into the facility. At the time of the incident, 142 people were able to evacuate to the surface, but eight miners were left missing. Alrosa declared an end to rescue [operations](#) Aug. 26 on the basis that the threat of further flooding was too great to continue.

The mine accounted for 9% of the company's output in 2016, but company CEO Sergey Ivanov insisted during an Aug. 31 conference [call](#) that the production shortfall can be offset by ramping up output at other assets. He reiterated a production guidance of 39.2 million carats for 2017 and said output would dip slightly in 2018.

Independent analyst and consultant on diamonds and the mining industry Paul Zimnisky told S&P Global Market Intelligence that it was unlikely Alrosa will be able to make up for the loss in production in the short term.

"They could produce a greater tonnage from some of the other mines, but it doesn't make economic sense to transfer it to the Mir processing plant, which is where they will have the excess capacity as mining at Mir has halted," he said Sept. 6.

He added that Alrosa could make use of alluvial deposits to put excess tonnage through the Mir processing plant, "but for the most part they are probably not going to be able to make up for the loss of production."

An alluvial diamond deposit occurs when the diamonds have already been removed from the primary source through erosion and are easier to access.

Over the next two to four years, Zimnisky said Alrosa's [joint venture](#) with the Angolan government to develop the Luaxe deposit will help boost production.

"That's the most significant new project in near decades, just because of the sheer volume and the very high grade," he said.

According to initial estimates, the project could produce up to 10 million carats a year, Zimnisky told S&P Global Market Intelligence.