

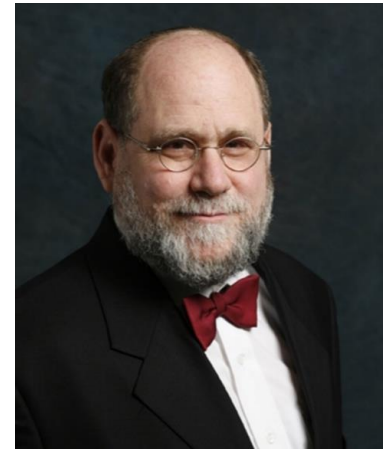
# **Diamond Supply Chain Challenges and Opportunities**

**Israel Diamond Exchange  
March 27, 2023**

**Martin Rapaport**

Martin @ Rapaport. Com

[www.rapaport.com](http://www.rapaport.com)



**RAPAPORT®**

# Rapaport Group

## Values:

**Ethical, Transparent, Competitive, Efficient Markets**

## Background

- **Established in 1978**
- **150 Employees, 9 Offices, 6 Countries**
- **Over 20,000 Clients in 121 Countries**
- **Added Value Services**

# **Rapaport Group**

## **Information Services**

- **Price List, Research, Rapaport.Com, Online Magazine**

## **RapNet – Diamond and Jewelry Trading Network**

- **Daily Listings valued at \$9 Billion, 1.7 Million Diamonds**

## **Rapaport Auctions and Trading Services**

- **500,000 ct. Recycled diamonds, Estate Jewelry**

## **Diamond Grading and Certification**

- **Grading, QC, Source Certification**

Visit [Rapaport.com](https://www.rapaport.com) for additional information

# Diamond Supply Chain

- **Synthetic Diamonds**
- **Russian Sanctions**
- **The Way Forward**

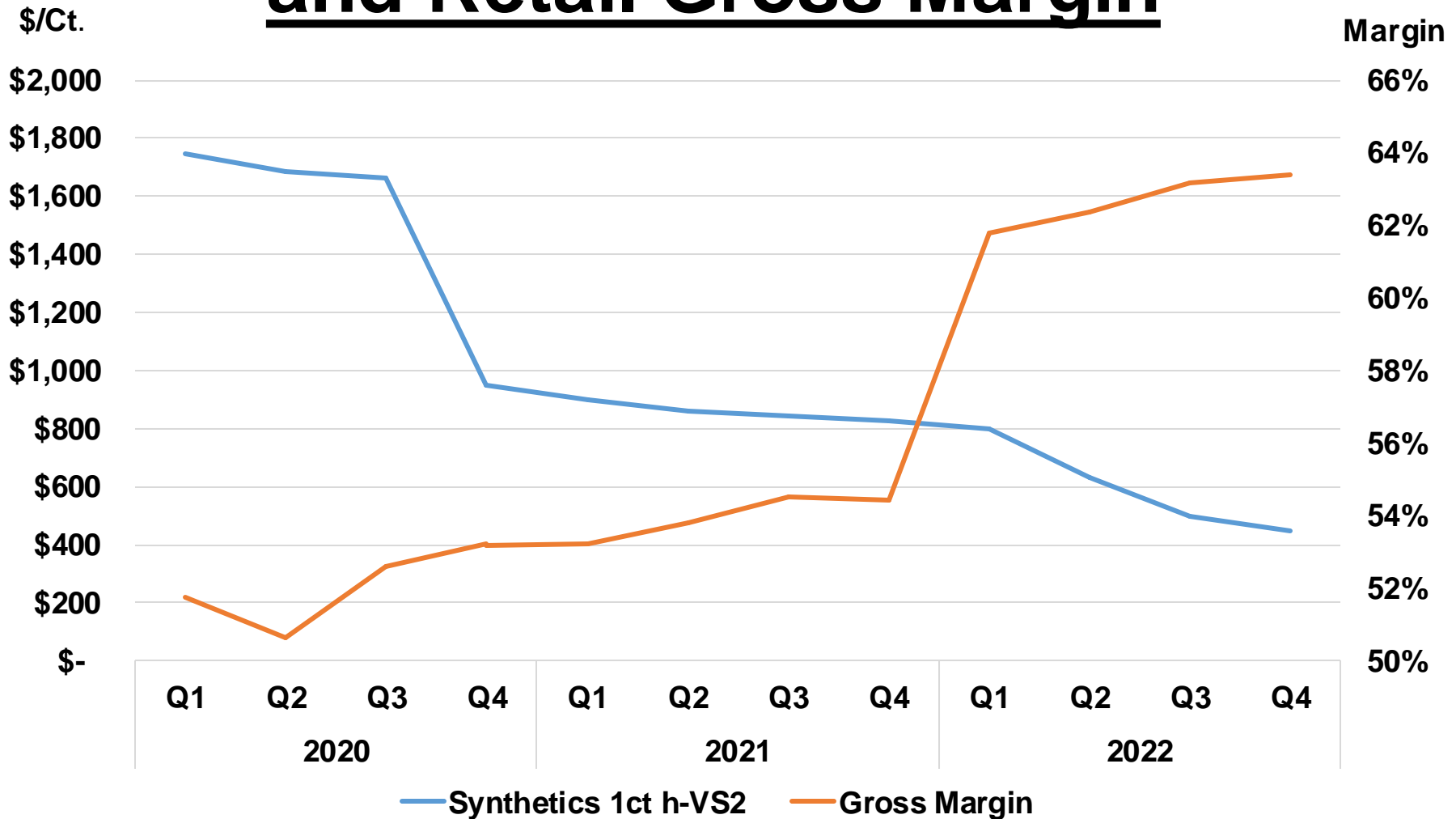
# Supply Chain Considerations

- **Synthetic Diamonds**
  - Short-Term vs. Long-Term Optimization
- **Russian Sanctions**
  - Ethical and Legal considerations are splitting markets
- **Mixers Are Making Money While Destroying Industry Integrity**
  - Who can you trust? What can you verify?
  - Is a “declarative statement” worth anything?
- **The Way Forward**
  - Industry Bifurcation, Individual Optimization
  - Branding, Segmentation and Curation of Naturals
  - Source Certification

# Synthetics

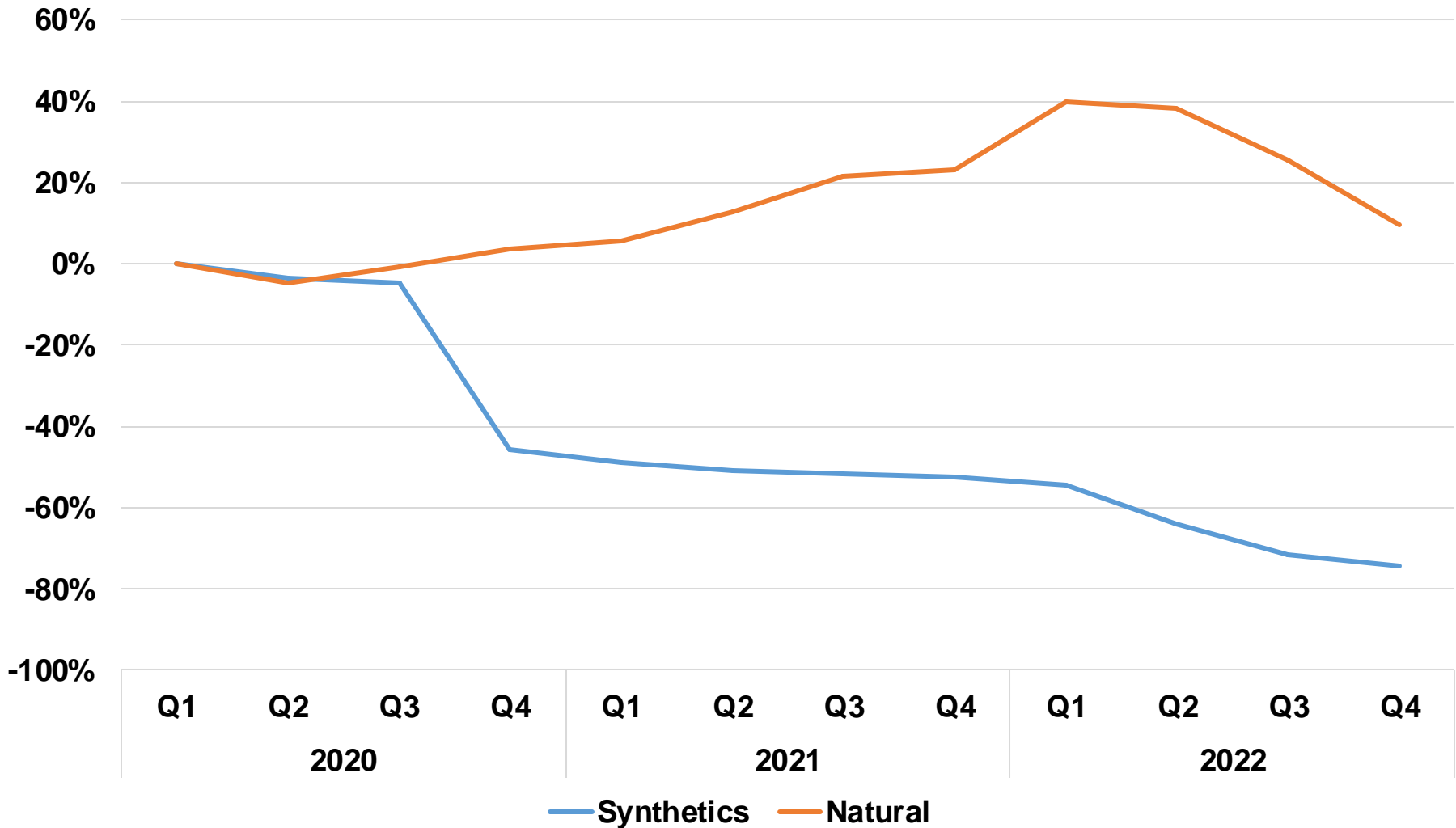
- **Synthetics Are A Threat To The Integrity Of The Diamond Trade**
  - Our trade is destroying the underlying value of diamonds as a store of value through the marketing, promotion, and sale of synthetic diamonds as a replacement for natural diamonds.
  - Synthetic diamonds are not the equivalent of natural diamonds because they do not store value and are being produced in unlimited quantities.
  - Many, if not most in our trade are operating dishonestly and unethically by failing to make full disclosure about value retention.
- **Synthetics Will Not Replace Natural Diamonds**
  - What we are seeing now is the bubble before the burst
- **Synthetic Prices Are Crashing At The Dealer Level**
  - Consumers Are Overpaying, It Won't Be Long Now

# Synthetics 1ct. H-VS2 Prices and Retail Gross Margin



Source: Edahn Golan Diamond Research & Data, Tenoris.bi

# 1ct. H-VS2 Synthetic vs. Natural Prices



Source: Rapaport Data, Edahn Golan Diamond Research & Data





2.00 CTS  
**\$189**

1.00 CTS  
**\$129**

**ECO**<sup>TM</sup>  
GROWN DIAMOND  
THE EARTH'S NEW BEST FRIEND

1.50 CTS  
**\$159**

The advertisement features a white background with large, abstract geometric shapes in shades of blue and green. Three starburst-shaped price tags are positioned around the central logo. The top-left tag is orange and contains the text '2.00 CTS' and '\$189'. The top-right tag is brown and contains '1.00 CTS' and '\$129'. The bottom-center tag is orange and contains '1.50 CTS' and '\$159'. The central logo consists of a stylized blue 'E' with a diamond lattice pattern inside, followed by the word 'ECO' in a bold, blue, sans-serif font with a 'TM' trademark symbol. Below the logo, the text 'GROWN DIAMOND' and 'THE EARTH'S NEW BEST FRIEND' is written in a smaller, blue, sans-serif font.

# Synthetics

- The coming shake out will be brutal for synthetic sellers. Not so much for those selling natural diamonds.
- Synthetic retailers beware. Consumers will remember your name once they find out the real value of what you sold them. Do you really think synthetics are a better deal for your customers than naturals?
- We support the FTC concept that consumers are best served with the broadest basket of products and services including synthetics.
- However, as stated in our submission to the RJC, we request that there be full disclosure regarding scarcity and value retention when comparing synthetic to natural diamonds

# Synthetic Diamonds

- Rapaport Full Disclosure Request
  - The following statement should be required on all marketing material, grading reports and invoices for man-made diamonds:

“Man-Made Diamonds do not appreciate in value like natural diamonds because they can be created in unlimited quantities and are not subject to the same supply limitations as natural diamonds.”

# Rapaport Full Disclosure Request

“Man-Made Diamonds do not appreciate in value like natural diamonds because they can be created in unlimited quantities and are not subject to the same supply limitations as natural diamonds.”

# Synthetic Diamonds

- Man-Made Diamonds should have the same disclosure and regulatory requirements as natural diamonds
  - Treatments disclosure for man-made diamonds should be the same as for natural diamonds
  - Anti-money laundering and counter-terrorism regulations should be the same as for natural diamonds
  - System of Warranty requirements should be the same as for natural diamonds
  - A level playing field must be established to ensure fair and transparent market competition.

# Definitions

## Federal Trade Commission

- [Code of Federal Regulations § 23.27 Misuse of the words “real,” “genuine,” “natural,” “precious,” etc.](#)
- ‘It is unfair or deceptive to use the word “real,” “genuine,” “natural,” “precious,” “semi-precious,” or similar terms to describe any industry product that is **manufactured or produced artificially.**’

[SYNTHETIC | English meaning - Cambridge Dictionary](#)

—  
[Cambridge University Press & Assessment](#)

[https://dictionary.cambridge.org > dictionary >](https://dictionary.cambridge.org/dictionary)

[Synthetic](#) **an artificial substance or material:**

Man-made gem products are known as synthetics.

# Real Diamonds

- Real diamonds are not just sparkly things
  - They are valuable
  - They support the livelihood of millions
- Real diamonds are about commitment
  - Sex, Marriage, Children, Family, Commitment
  - Emotional and Financial Security
- Marriage is not a one-night stand
  - Engagement rings are not costume jewelry



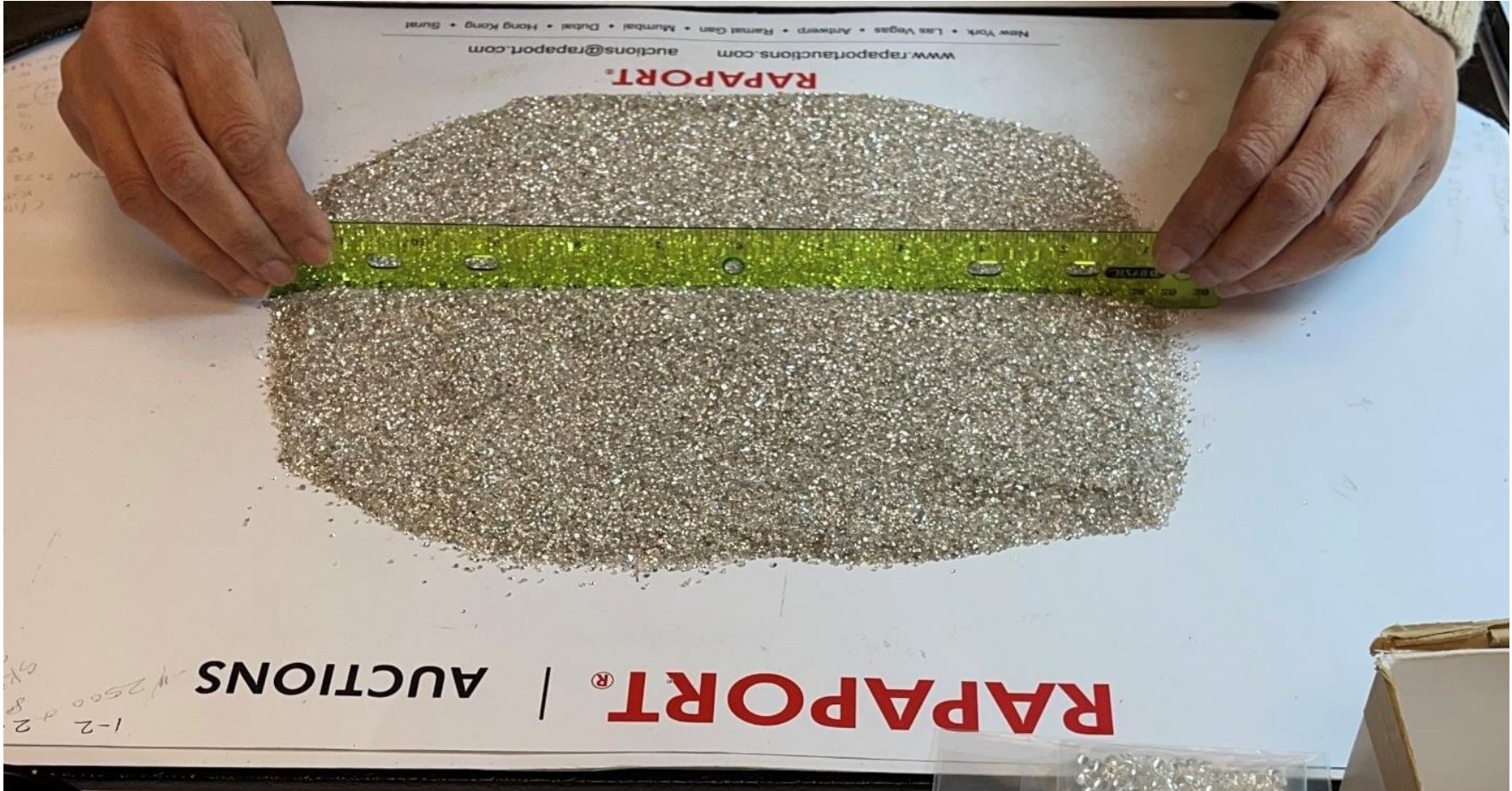
# Real Diamonds

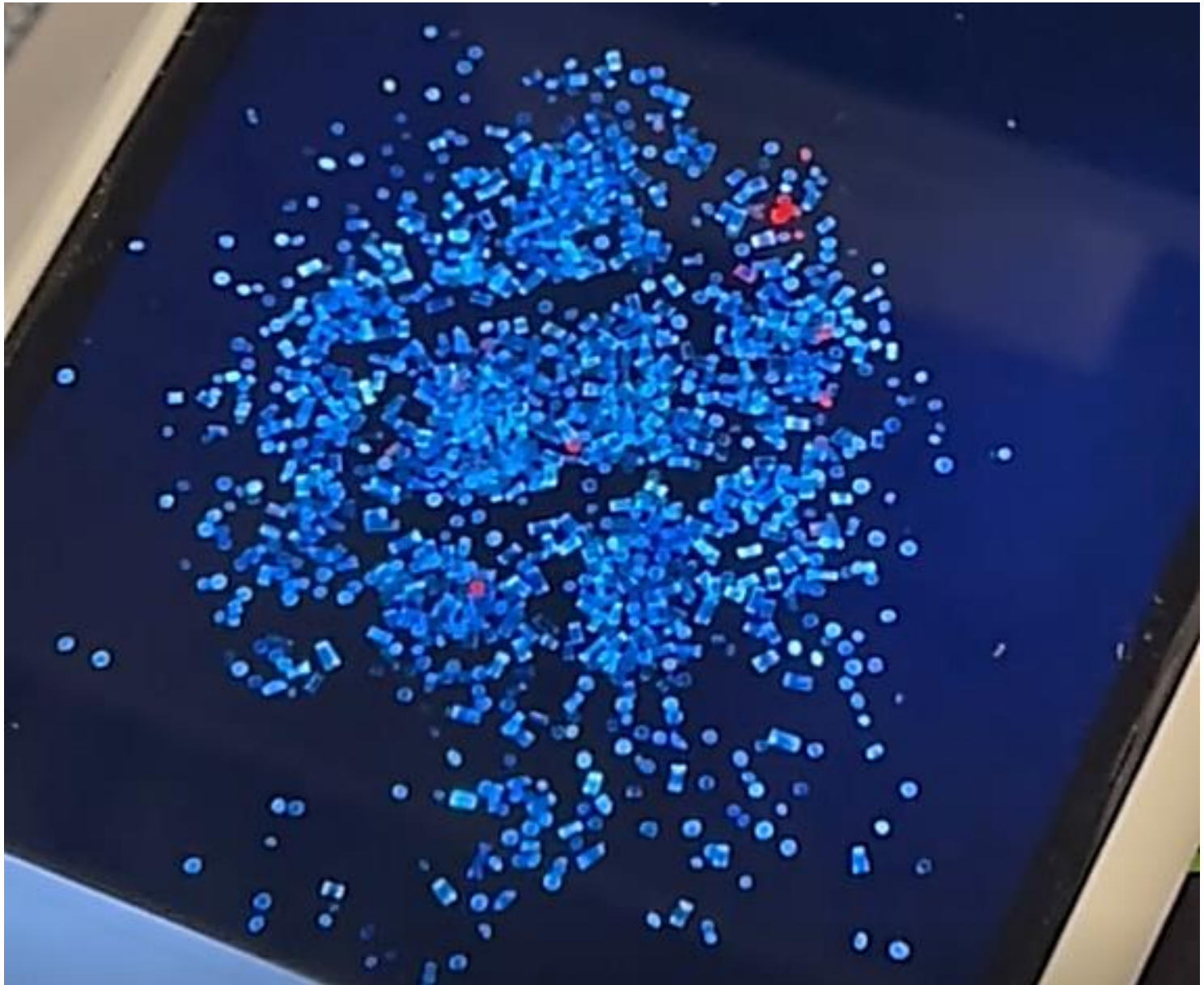
It Is Important  
That We Understand The  
Real Value Of Real Diamonds.

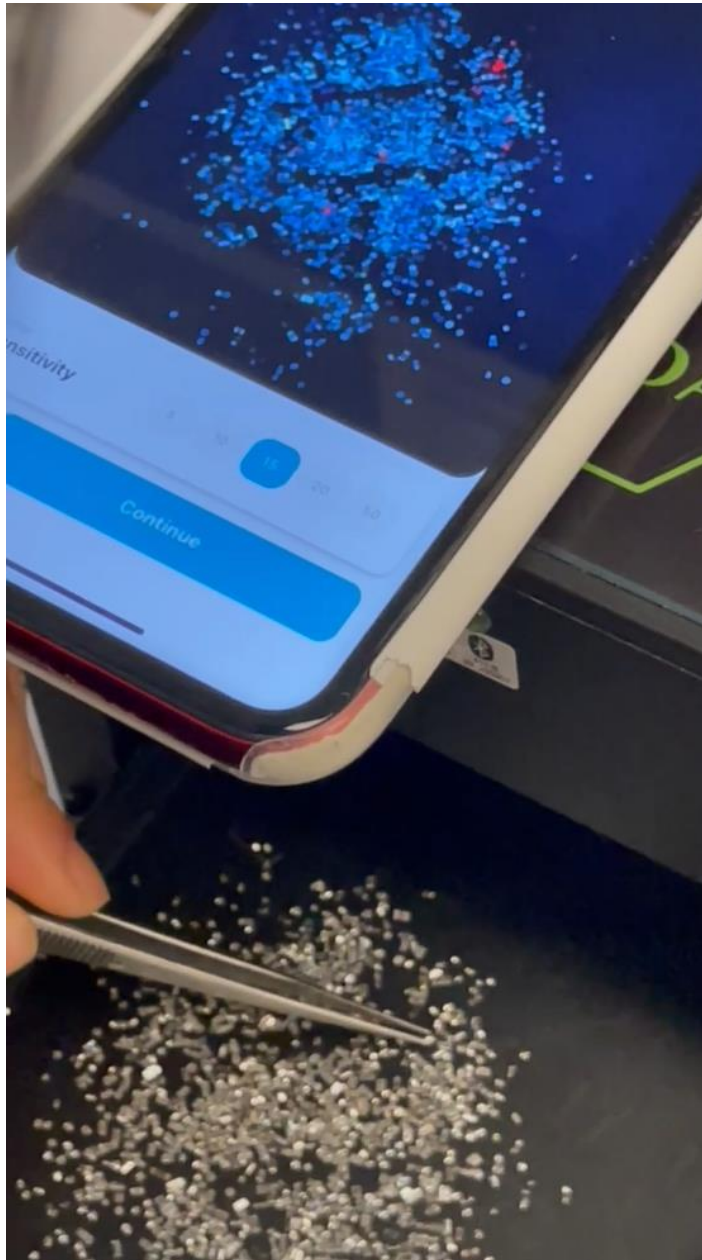
See The Video!

# Mixing Synthetic

- Dishonest companies are mixing synthetics into natural
- Synthetics are not a threat to natural if and only if (IFF):
  - Detection – We can detect them
  - Disclosure – We are honest enough to disclose them
  - Differentiation – We can separate them from natural parcels
- Warning: Natural diamond prices will fall to synthetic prices if we cannot separate the goods. We have the technology of detection, but we must improve the technology of differentiation – separation.







# Recycle Markets

- Synthetics are destroying the ability for small traders to buy recycled diamonds off-the-street from retailers. How do you detect synthetics on the road. Who bears the cost?
- The cost of testing reduces the price consumers get for their recycled natural diamonds.
- Synthetics are also a nightmare for larger companies that must test and retest. How do you remove them from melee parcels?
- Recycled diamonds offer one of the best opportunities for the diamond and jewelry trade and consumers deserve fair market value when reselling their diamonds.

# US Demographics

<b>Age MM</b>	<b>2023</b>	<b>2033</b>	<b>2023</b>	<b>2033</b>
<b>0-14</b>	<b>62</b>	<b>64</b>	<b>18%</b>	<b>18%</b>
<b>15-29</b>	<b>66</b>	<b>66</b>	<b>19%</b>	<b>18%</b>
<b>30-49</b>	<b>88</b>	<b>95</b>	<b>26%</b>	<b>26%</b>
<b>50-59</b>	<b>41</b>	<b>41</b>	<b>12%</b>	<b>11%</b>
<b>60-69</b>	<b>41</b>	<b>39</b>	<b>12%</b>	<b>11%</b>
<b>70+</b>	<b>42</b>	<b>57</b>	<b>12%</b>	<b>16%</b>
<b>Total</b>	<b>340</b>	<b>361</b>	<b>100%</b>	<b>100%</b>

Source: United States Census Bureau

# Global Polished Diamond Demand

<b>\$ Billion</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>		<b>2019</b>	<b>2020</b>	<b>2021</b>
United States	\$13	\$11	\$15		50%	48%	54%
Rest of World	\$5	\$5	\$5		19%	22%	18%
China	\$3	\$3	\$3		12%	13%	11%
India	\$3	\$2	\$2		12%	9%	7%
Gulf	\$1	\$1	\$2		4%	4%	7%
Japan	\$1	\$1	\$1		4%	4%	4%
<b>Global</b>	<b>\$26</b>	<b>\$23</b>	<b>\$28</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: DeBeers, Wholesale value of diamonds in jewelry



# Diamond Jewelry (US Billion)

<b>\$ Billion</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
United States	\$38	\$35	\$47	48%	50%	54%
Rest of the World	\$17	\$15	\$17	19%	23%	18%
China	\$10	\$7	\$10	11%	14%	11%
India	\$5	\$4	\$5	11%	9%	7%
Japan	\$6	\$5	\$5	4%	5%	4%
Gulf	\$3	\$2	\$3	4%	5%	7%
<b>Total</b>	<b>\$79</b>	<b>\$68</b>	<b>\$87</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>

Source: DeBeers, Retail value of diamonds in jewelry

# Sanctions - Economic World War

- While we hope and pray for the best, but we must consider the reality of the current political, economic and social realities.
- Russia's invasion has triggered a series of economic sanctions that are likely to intensify and segment the global economy.
- We are at the first stages of a global economic world war. It's not just Russia and the US. China is exercising its military might while enforcing communist party rule over its economy and society. Existing US Sanctions on China are likely to expand.
- We can expect greater sanction enforcement, currency warfare and competition for scarce resources.

# Sanctions - Economic World War

- Trade is now a national security issue and is being weaponized. The role of diamonds as a source of military funding is under increasing scrutiny. To governments diamonds are money.
- Complicating matters are diamond markets in neutral countries such as India and Dubai as well as regions in Africa and Asia where it is perfectly legal to trade with both the US and Russia.
- Diamonds are perfectly legal in one area and illegal in another, yet they move freely across boundaries. This is likely to change.
- Ethical factors are also complicating sourcing as brands and others seek to enforce standards that exceed legal obligations.

# Sanctions - Economic World War

- Knowing where your diamonds come from has become imperative for an increasing numbers of buyers. This is promoting the integration and verticalization of supply chains. Sophisticated diamond tracing technologies are developing.
- The challenge for the diamond trade is to create source certification schemes that enables the participation of smaller companies in a transparent supply chain.
- Efforts underway are being stymied by governments, particularly the US government, who fails to clarify the rules of the game. At this stage, the US does not know what they should do to ensure compliance with sanction regulations. They don't even communicate what the current sanction regulations are.

# US Russian Sanctions

- On February 24, 2022, Russia invaded Ukraine
  - Russia supplies about 30% of the world's rough diamonds
- On March 11, President Biden issued an executive order prohibiting the importation of non-industrial diamonds of Russian Federation “origin.”
- The phrase “origin” has significant legal implications as it excludes diamonds from Russia that have been “substantially transformed” outside of Russia.
- Since almost all of Russia's diamonds are manufactured outside of Russia, the President's executive order had almost no impact on the supply of diamonds other than to re-route how money was transferred by various banks to Russia. The “origin” loophole rendered the Presidents executive order ineffective.
- Why did President Biden issue an ineffective executive order that did not reduce the cash flow to Russia?

# Russian Sanctions

- On April 7, 2022, the US Department of Treasury - Office of Foreign Asset Control (OFAC) sanctioned Russia's Alrosa.
- These sanctions did not include the limiting word "origin." It stated that all property or interests of Alrosa are blocked and must be reported to OFAC.
- OFAC says:
  - "...Any entities that are owned directly or indirectly 50% or more by one or more blocked persons are also blocked. ...These prohibitions include the making of any contribution or provision of funds, goods or service by, to or for the benefit of any blocked persons and the receipt of any contribution or provision of funds, goods, or services from any such person."
- Can "US persons" buy polished diamonds that have been bought from Alrosa by "non-US persons"? What if Alrosa rough diamonds were "substantially transformed" and cut outside of Russia? What should the US diamond trade do? Not do?

# Russian Sanctions

- On May 9, 2022, RapNet issued a ban on all “Russian Source” diamonds including diamonds bought from Russia as rough and then cut outside of Russia by non-sanctioned entities.
- The position of the diamond trade’s US Jewelry Council has been that it is OK to import “Russian Source” diamonds that have been “substantially transformed” outside of Russia.
- On February 28, 2023, after consultation with the leaders of the New York diamond trade, Rapaport sent a letter to OFAC requesting clarification regarding “Russian Source” diamonds.
- On March 3, 2023, OFAC sent a non-sensical reply that did not address the questions. To date, no reply has been provided.

# Russian Sanctions

- Rapaport's request to OFAC on February 28, 2023.
- Please answer the following questions on an urgent basis.
- Is it permissible for a US entity to trade or import into the United States, polished diamonds manufactured from rough diamonds purchased from Alrosa after April 7, 2022, whereby the diamonds were manufactured or “substantially transformed” outside of Russia by non-sanctioned entities?
- Does “substantial transformation” of a product purchased from a “sanctioned entity” render the resultant product free of sanction restrictions?



# Russian Sanctions

- The issues before us are serious and will probably get more complex. The US State Department is talking about controlling imports of polished diamonds into the US.
- How can we know about companies owned 50% or more by sanctioned entities? Must we know the beneficial owners of the companies we trade with?
- How far must we go to ensure we are not dealing with a sanctioned entity? What if A bought from B who bought from C? Can we trade in the international open market? What about Dubai, Mumbai, Ramat Gan?

# Russian Sanctions

- It is our intention to work with other trade leaders and our US Congressional representatives to get answers from OFAC that will help the trade develop compliance and control procedures that are reasonable and not arbitrary or capricious.
- A major step forward will be the adoption and integration of source certifications systems on RapNet.

# The Way Forward

- Given the fact that access to the US market, G7 and other western markets will require higher levels of source identification, we will be working with those that wish to establish rational compliance standards that can be approved by US authorities.
- We will also be working with our congressional representatives to ensure fair regulations and, if necessary, legislation that enables a level playing field for a broad range of trade participants.
- Of particular concern is greenwashing by importers who import sanctioned goods under-cover and then compete in the US market with sanctioned goods at lower prices.

# The Way Forward

- We call upon the US administration Department of Treasury's Office of Foreign Asset Control (OFAC) to reply to our request for clarification regarding the importation into the US of "Russian Source" diamonds purchased as rough from Alrosa and then manufactured outside of Russia by non-sanctioned entities.
- We call upon the US Federal Trade Commission, as well as the WFDB, IDMA, and RJC trade organizations to clarify their position regarding full disclosure of scarcity and value retention for the sale of synthetic diamonds, particularly when the sale process compares the pricing of natural diamonds to synthetics.
- We request all RapNet members to refrain from listing any "Russian Source" diamonds on RapNet.

# The Way Forward

- The current situation provides many opportunities for members of the trade to add value to the diamonds they manufacture, trade or retail.
- While different markets will require different standards based on the laws of the countries and the ethical standards of the market participants, there is sufficient room for cooperation and standardization of procedures that will ensure legal and ethical compliance for the markets we wish to serve.
- Should you wish to follow up on any of the issues communicated in this presentation, please email me directly to Martin @ Rapaport. Com

Thank you for your time and consideration.

Martin Rapaport