

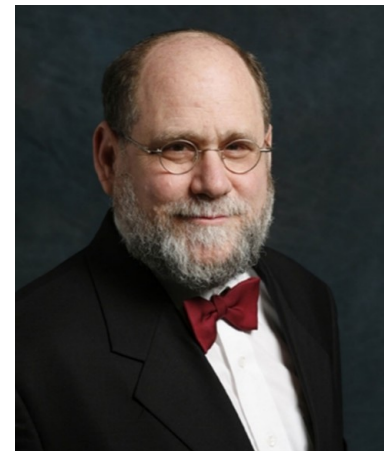
Diamond Trends Webinar

RAPAPORT WARNING TO THE DIAMOND AND JEWELRY TRADE

September 13, 2023

Martin @ Rapaport. Com

www.rapaport.com



RAPAPORT®

Thank You

- **Our Rapaport Members**
- **Rapaport Team**
 - **Research, Presentation, Web Broadcast**
- **Mission to Sierra Leone**
 - **October 15 – 20, January 21-26**
- **Contact: Martin @ Rapaport.Com**

Mission To Sierra Leone

- **Rapaport Trade Mission To Sierra Leone**
- **Oct 15- 20, 2023**
- **Jan. 21-26, 2024**
- **Register at Rapaport.com/TradeMissions**
- **A life changing experience**

Rapaport Group

Values:

Ethical, Transparent, Competitive, Efficient Markets

Background

- **Established in 1978**
- **145 Employees, 9 Offices, 6 Countries**
- **Over 22,000 Clients in 121 Countries**
- **Added Value Services**

Rapaport Group

- **Information Services**
 - Price List, Rapaport.Com, Online Magazine, New, Analysis
- **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
- **Social Responsibility Diamond Grading and Certification**
 - Grading, QC, Source Certification

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

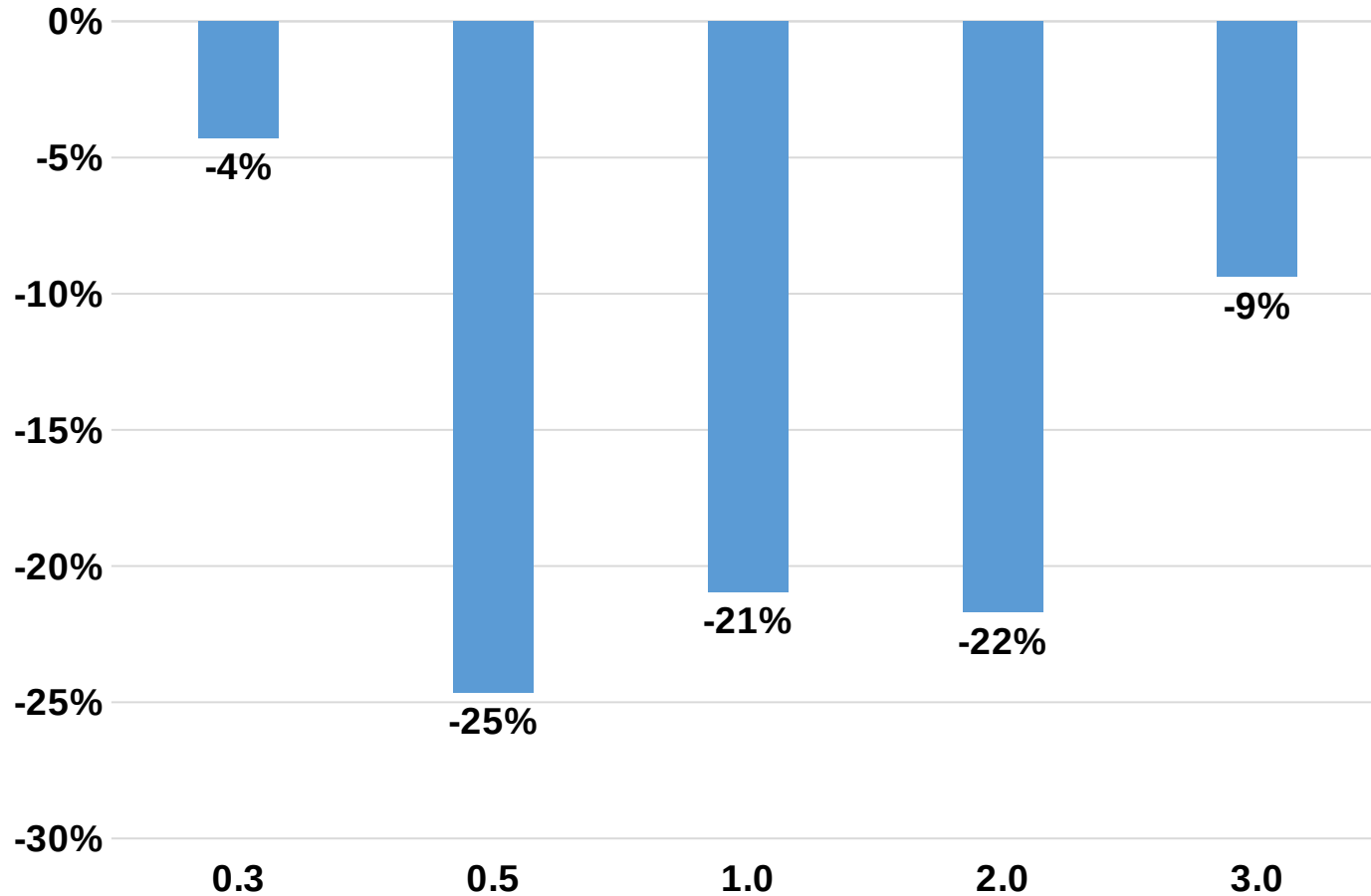
Agenda

- **Market Situation**
- **Synthetics**
- **Sanctions**
- **Action Plan**
- **Conclusion**

Market Situation

- **We are entering a difficult crisis period**
- **We will experience restructuring**
- **The real diamond market may be reduced or eliminated in certain areas due to synthetics**
- **The positioning of the real diamonds as a luxury product will continue and significantly strengthen in the long-term**

1 Year Price Changes



Market Situation

- **Synthetics taking market share**
 - Some temporary, some long term
 - Destroying real lower colors and real melee
 - Attack against non-bridal diamond markets
- **Sanctions related to global economic world war**
 - De-Globalization and US Market
 - China, Russia, India
 - Currency warfare, natural resource warfare
- **Economic factors**
 - Inflation, interest rates, disposable income
 - Strategic confusion, sustainable change and noise

Synthetics

- **The Primary issue is synthetic demand replacing real diamond demand**
- **Real diamonds will win back most of the engagement ring market as synthetic prices go to \$10-\$100/ct.**
- **The luxury market is up for grabs and will be mixed between real and synthetics**
- **Real diamonds will lose most of the fashion jewelry market for low to medium price points**

Real vs Synthetic Diamond Pricing – Sep. 13, 2023

2.00 ct. F-VVS2	Real 2 ct.	Syn 2 Ct.	
Rough Cost	\$23,838	\$266	-99%
Cutting Cost	\$233	\$167	-28%
Cert Cost	\$189	\$66	-65%
Other Costs	\$111	\$84	-24%
Total	\$24,370	\$583	-98%
B2B Price	\$26,600	\$660	-98%
B2C Price	\$35,048	\$3,944	-89%
Markup	32%	498%	+ 1,556%
Jeweler Profit	\$8,448	\$3,284	-61%
Jeweler Profit Margin	24%	83%	+345%
Consumer Savings		\$31,104	
Savings %		89%	

Jeweler Perspective

2Ct, H/VS2 (Total Price)	Real	Synthetic	Difference
B2B Price	\$15,300	\$426	- 97%
B2C Price	\$19,290	\$2,324	- 88%
Markup	26%	445%	+ 1,711%
Profit	\$3,990	\$1,898	- 52%
Profit Margin	21%	82%	+ 390%

Consumer Perspective

2Ct, H/VS2 (Total price)	Real	Synthetic	Difference
B2B Price	\$15,300	\$426	- 97%
B2C Price	\$19,291	\$2,323	- 88%
Saving (B2C)		\$16,967	Money not spent on Jewelry

Real & Syn Prices & Markups

2Ct, H/VS2 (Total Price)	Ritani	De Beers	James Allen	Blue Nile	Brilliant Earth
Real B2B Price	\$15,300		\$15,300	\$15,300	\$15,300
Real B2C Price	\$17,284		\$17,670	\$19,384	\$21,204
Real Markup	13%		15.5%	27%	39%
Syn B2B Price	\$426	\$426	\$426	\$426	\$426
Syn B2C Price	\$946	\$1,600	\$2,768	\$2,994	\$3,030
Syn Markup	122%	276%	550%	603%	611%

Synthetics

- **Fine jewelry markets have not yet been attacked**
 - Not yet creating much under 1 ct. synthetics but its coming
- **Swarovski Pandora Model – Low value, high volume**
 - Who wants to compete with Walmart, Swarovski, Pandora
- **Independent Jeweler Model – High value, low volume**
 - Brands, Real diamonds, Designers, Custom jewelry
- **Inability to detect lower color synthetics and cost of small diamond detection will reduce price for real diamonds. We won't know if goods are synthetic**

Synthetics – Price

- **Why do people buy synthetics?**
- **Promotion of synthetic price benefit to consumers will reduce jeweler revenue, especially at \$10-\$100/ct.**
- **Teaching generations of Millennials and GenZ to spend less on engagement rings. Why spend more for engagement? Is marriage important? Real diamonds are not important. What are we telling customers?.**
- **Synthetic prices will be so cheap that the net revenue even at higher profit margins will be insufficient for a jeweler's survival. Jewelers can't live off synthetics.**

Synthetics – Bigger Better

- **Bigger Better – They want to spend \$5,000 on an engagement ring. Jeweler says you can get bigger better same thing. So, they spend the \$5,000 on synthetic.**
- **What happens when synthetics fall to \$10-100 ct.? How do you spend \$5,000 on synthetics. 50 Carater? So, they will buy something else. Maybe a real diamond maybe not. How married are they to the idea of a diamond? What are you selling?**
- **The synthetic damage to real engagement rings will not help synthetics in the long run but it will hurt real diamonds. Synthetics hurt others even though they do not benefit themselves in the long term. Definition of a bad product.**

Sanctions

- **Presidential Executive Order – March 11, 2022**
 - the importation into the United States of ...non-industrial diamonds; and any other products of Russian Federation origin.
 - Note word “Origin”

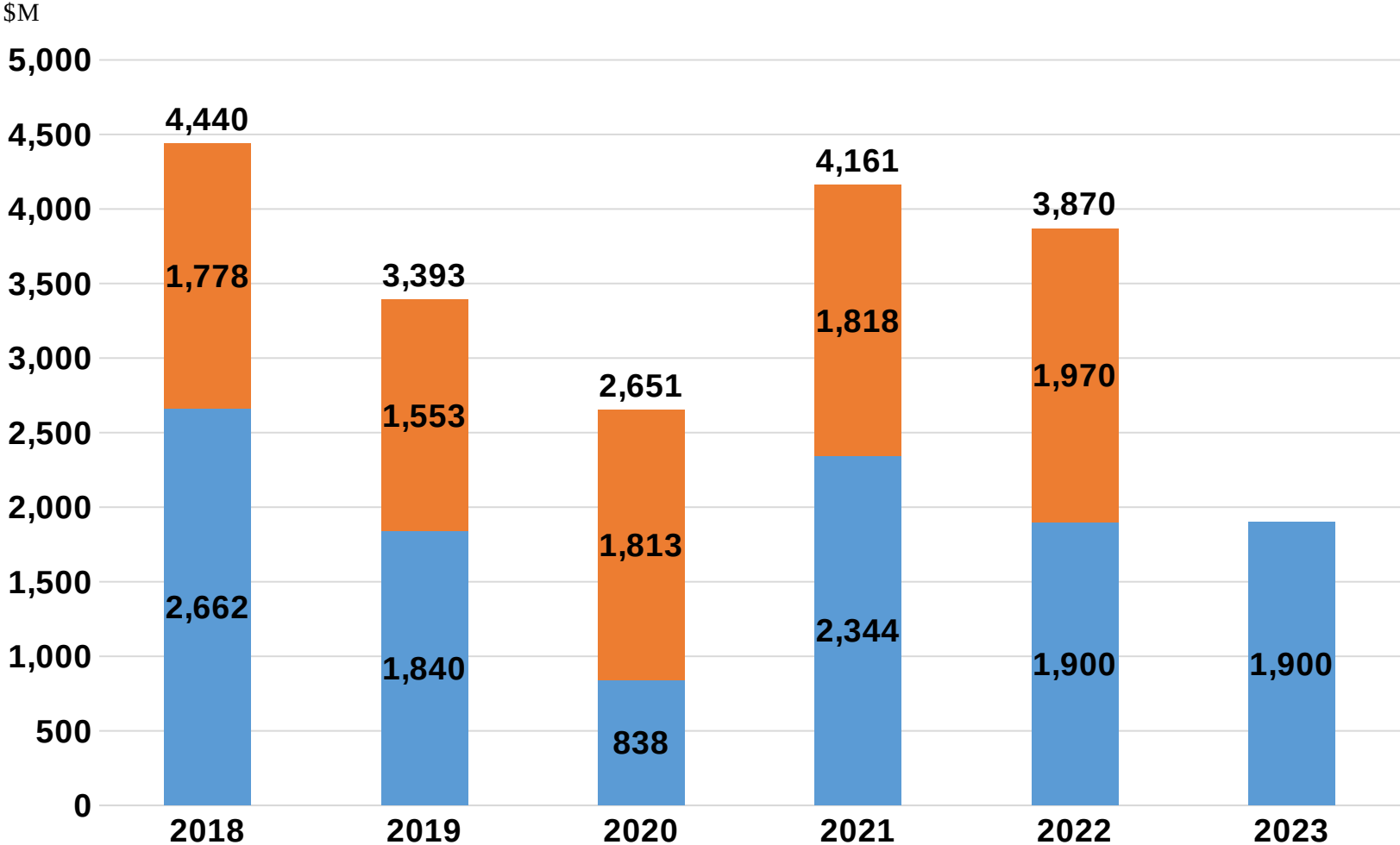
- **US OFAC Sanctions on Alrosa – April 7, 2023**
 - OFAC Designates Alrosa as a sanctioned entity

- **Russian Origin vs Russian Source**
 - Russian Source is defined as rough diamonds purchased from Alrosa and manufactured (substantially transformed) outside of Russia by non-sanctioned entities.
 - Is the “Origin” loophole still effective after OFAC sanctions?
 - Can the US trade buy Russian Source diamonds? Are we buying them?

Sanctions

- **Rapaport Letter to OFAC – February 28, 2023**
 - **Is it permissible for a US entity to trade Russian Source Diamonds?**
 - **No answer! What’s going on.**
- **Government Interests. The US government has national security priorities in its relationship with India. India is a nuclear power that acts as a buffer/balance to a rapidly expanding aggressive China. India wants to continue exporting Russian Source diamonds to the US.**
- **So what’s more important, national security or sanctions? It’s the Presidents call? Hence the double speak. We have sanctions that don’t work so as not to upset the Indians.**
- **The US government wants to look good at the expense of the diamond and jewelry industry. Just like the Kimberley Process.**

Half Year Alrosa Sales



■ H1 ■ H2 Series3

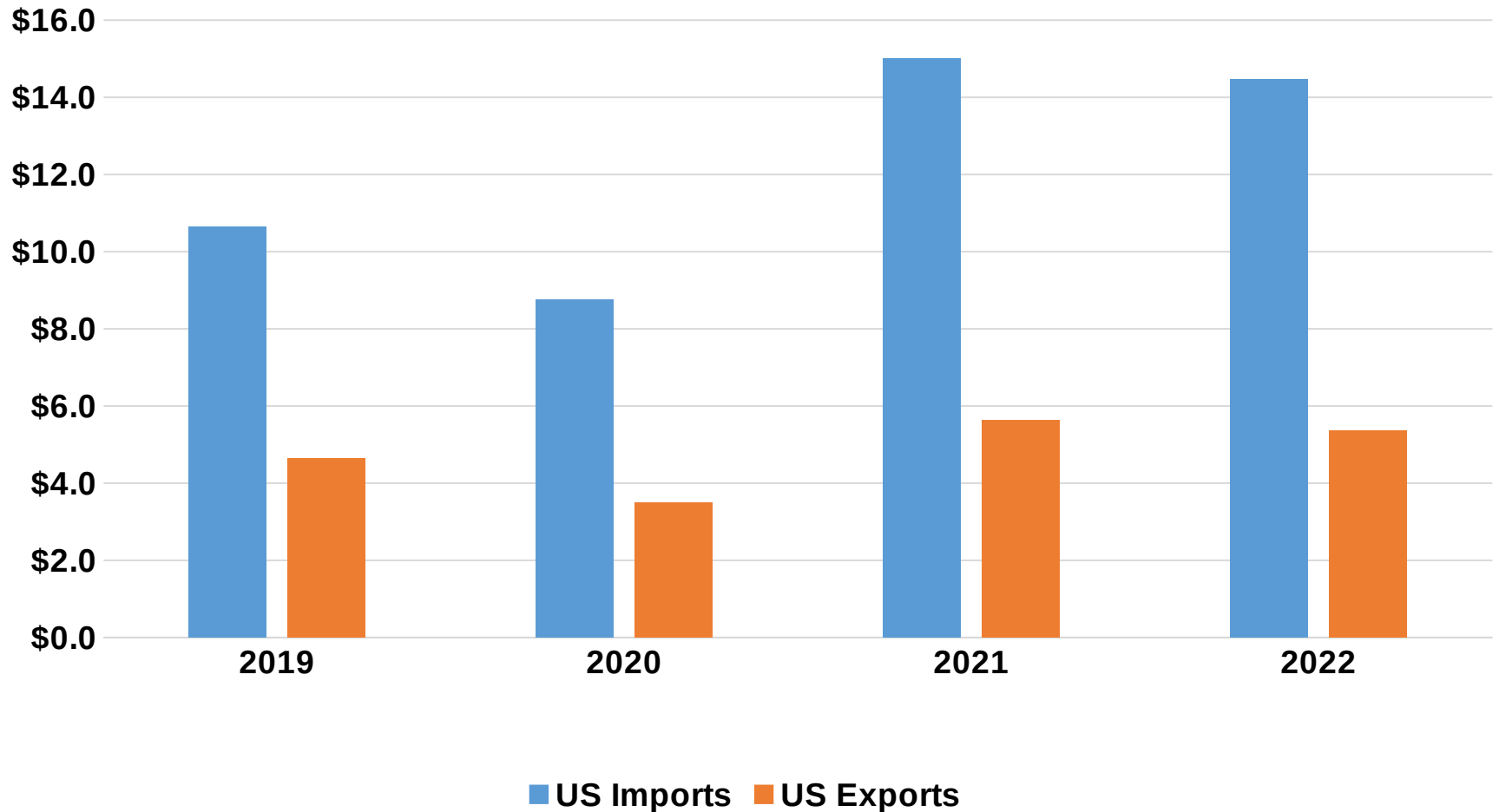
Sanctions

- The relationship of our industry and with the US government is terrible. It's not just this President, administration or political party.
- The US has a diamond and jewelry trade deficit with India of over \$9 billion each year. Yet US companies are locked out of the Indian markets due to high tariffs. They export to us, but we can export to them. India is the third largest and fastest growing diamond market in the world.
- We are talking about a \$111 billion US trade deficit since 2000.

Tariffs and Trade	US	India	2022 US Trade Deficit	2000-2022 US Trade Deficit
Diamonds	0.0%	7.1%	\$6,216	\$76,404
Gold Jewelry	5.5%	28.8%	\$2,907	\$34,756
Total			\$9,123	\$111,160

US Diamond & Jewelry Trade with India

\$ Billions



Sanctions

- And then there is this money laundering or bad data problem. Somehow, the US is exporting more “under the half carat” diamonds then it is importing. Since we have no US mines this is miraculous.
- It looks like about \$2 billion a year with \$45 billion of unexplained exports and money flow into the US. Hopefully, a data problem. But no one looks into this and perhaps no one in the US government cares.

US Diamond Trade Below 0.50 Ct	US Imports	US Exports	Net Export
2000-2018	\$43,469	\$79,290	\$35,821
2019	\$1,375	\$5,701	\$4,326
2020	\$1,145	\$2,424	\$1,280
2021	\$2,372	\$4,057	\$1,686
2022	\$2,068	\$4,695	\$2,626
Total	\$50,429	\$96,168	\$45,739

Sanctions – The Big Problem

- **The US State Department has taken upon itself the task of convincing G7 countries to control the flow of all diamonds, including polished diamonds, to stop the importation of Russian diamonds into the US.**
- **They have hooked up with the World Diamond Council (WDC) to create a “WDC G7 Protocol” document for all diamonds imported to the US and G7 countries. The protocols are designed to track all diamond transactions from everyone, everywhere on every invoice with extensive auditing requirements. They even have bourses auditing their members.**
- **The catastrophe is that the WDC protocols are a death sentence for the small to medium size companies in our trade that do have the human and financial resources to meet the extensive WDC compliance requirements. It’s a power grab by the big boys.**

Sanctions – The Big Problem

- **Market Power.** The WDC protocols are heavily biased in favor of large companies against small and medium size companies. They will enable the mining sector to control the polished diamond markets through selective distribution of auditable rough diamonds. This will extend mining market power from rough to polished markets. Smaller companies that do not have access to auditable rough or polished controlled by larger companies will be forced out of business.
- **The WDC proposal not only segments diamonds into auditable and non-auditable, it segments people into large and small companies.**
- **We cannot ignore the fact that the WDC is highly influenced by the big companies that fund it. It is in bid company interests to eliminate smaller market players so as to reduce market competition and obtain higher prices for their diamonds. The WDC proposal will reduce market competition and destroy existing efficient polished markets.**

Sanctions – The Big Problem

- The WDC and the World Federation of Diamond Bourses (WFDB) are encouraging people to sign a supporter document verifying their approval of the “WDC G7 Protocol.” Please don’t sign. It’s terrible.
- **DON’T SIGN ANYTHING UNTIL YOU HAVE READ IT AND UNDERSTAND IT.**
- The way forward is to offer an alternative straight and simple G7 protocol that everyone can understand and that governments can enforce if they so choose.
- The US is the most important diamond market because we buy much more diamonds than anyone else. It’s time for us to wake up and take action. We are most important, yet, mistreated by the WDC and the global trade.
- Its time for us to reach out to our government representatives and ensure that the legitimate interests of the US diamond and jewelry markets are supported and protected by our congressional representatives.

ACTION PLAN

The Rapaport G7 Protocol

All diamonds imported into the United States or G7 countries will require a declarative statement by the importer and overseas supplier stating:

“To the best of my knowledge the diamonds being imported do not originate from any US sanctioned entity.”

For other G7 countries

“To the best of my knowledge the diamonds being imported do not originate from any [government name) sanctioned entity.”

<END>

ACTION PLAN - Background

- **The US diamond and jewelry trade can protect itself, if and only if we reach out to our congressional representatives. Senators and Congressmen can and will protect our interests if we communicate with them. Votes count.**
- **Every congressional district has members of our trade in it. Our industry operates on the local level. We are influential members of our communities. We must use our relationships to help us communicate directly with our representatives, explain our issues and request their help.**
- **We must work together and sign petitions to the US government agencies stating our needs. These petitions should be supported by our legislators.**
- **Rapaport will be sending out emails with links to Action Items that you can sign onto and support. We will communicate positions that we believe are in the best interest of the US trade. If you agree then please take action.**

ACTION PLAN - POINTS

- 1. Sanctions: Please sign up your support for the Rapaport G7 Protocol and rejection of the WDC protocol. We will provide an online petition for you to sign that should be communicated to your legislative representative and forwarded with their support to the President, Secretary of State, and Secretary of Treasury. We will help you do this.**
- 2. OFAC: Please sign our petition requesting an answer from OFAC regarding Russian Source diamonds. Please share this petition with your local legislators and ask them to request a reply from OFAC on your behalf.**
- 3. Synthetic Diamonds. Please sign a petition to the Federal Trade Commission (FTC) requesting that they require full disclosure when selling synthetic diamonds. This should include the inability of synthetic diamonds to retain value and other issues.**

ACTION PLAN - HELP

- **We can't do this without the help and cooperation of the US trade. We need volunteers that will help us coordinate and communicate our positions to local legislators and administration officials in Washington. Email me at martin@rapaport.com.**
- **Everyone can take part in this important effort. Of greatest value is our connections as an industry and our innate ability to be personal. I don't think anyone can communicate with legislators better than our jewelers.**
- **As we head into the election season your local legislators will be eager to talk with you, understand your issues and help you. It doesn't matter if you or they are a democrat or republican. Our issues transcend partisanship. We are asking our representatives to protect us from unfair competition and foreign G7 government intervention in our businesses. They will be receptive.**

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WDC Issue

- **The Rapaport Group has had issues with the WDC for some time. This is because the WDC supports the Kimberley Process (KP) which certifies blood diamonds as legitimate. This includes Russian diamonds.**
- **The WDC is now expanding its mandate beyond the KP and trying to control the trade in polished diamonds. Their efforts represent the interests of the large companies against small companies. They are cynically using the issue of responsible sourcing to create national laws that require unacceptable compliance requirements that will force small companies out our trade, reduce competition, and destroy our markets. The WDC wants market power for the big companies that fund them.**
- **The WDC holds itself out as the sole representative of the diamond trade. It's time we stopped this misrepresentation. I am calling on members of the diamond trade to officially resign for the WDC and send them notice that they are not to represent them in any way. We will be sending out an email with a link for such resignation notice shortly.**

Ethical Issue

- **We are two days away from Rosh Hashana and in the midst of the Jain Paryushan holiday. Both holidays give us an opportunity to ask for forgiveness. So, I too ask for forgiveness, Michami Dukkadam.**
- **I believe in G-D and I believe in Karma. The issue of synthetic diamonds and sanctions did not come from nowhere. Our industry is trading in blood diamonds that cause suffering. It should be clear that we cannot prosper based on the suffering of others. If we continue trading in blood diamonds, we do not deserve to remain in business. We are in direct conflict with everything our diamonds represent and everything we should believe in.**
- **Good governments try to be ethical but often they are not. They have strategic interests that are more important than ethics. Certainly, national security interests dominate. But sometimes governments do bad things because we as industry do not guide them properly. For example, the US sanctions the Zimbabwe government, and the US State Department votes them in as Chair of the Kimberley Process. How in the world is that right?**

Ethical Issue

- **The WDC and Kimberley Process is meeting in Zimbabwe this Nov. 6-10. WDC representatives will be feasting in Victoria Falls as million of people in Zimbabwe are starving due to the corrupt Zimbabwe government. How can this be right?**
- **I will be fasting for three days, Nov. 7-9 in solidarity with the people starving in Zimbabwe and in protest against WDC participation in the Kimberley Process.**
- **I am calling on the diamond and jewelry trade to fast with me, for one day, Tuesday, November 7.**
- **Let us take a day to reflect on who we are, what we do, and what we stand for. Let's take a day for spiritual reflection as we go about our work. Let us pray for others less fortunate than us. And let us pray for ourselves, that we be worthy of what we have and what we do.**

Conclusion

- **We are in for a bit of a bumpy ride over the next year or so. There will be unprecedented change as the real diamond business repositions itself in the face of stiff price competition from synthetics. Synthetics will lose bridal but probably take over the big fashion jewelry business**
- **Globalization is over and countries are no longer making nice with each other. Economic warfare will intensify. Sanctions may proliferate – not just from the US. The outlook for communist China is uncertain. India, UAE and Africa will play both sides. Asia will be good, especially if the dollar takes a hit. but the real money is in America.**
- **If you are in the real diamond business – stay there. Go high. Learn to sell the specialness of diamonds. Recognize that diamonds are not for everybody, and you should not try to sell them to everyone. If your customer is only interested in price, they are not worthy of real diamonds. Send them to Swarovski. You are special. Your diamonds are special. Never forget that.**

Conclusion

“There is a reason G-D gave diamonds to the poorest people in the world and made the wealthiest desire them. Bridging that gap is ‘Tikun Olam’, fixing the world. That is the reason the diamond trade exists.”

Are you up to diamonds?

Martin @ Rapaport.Com