

The following is a series of communications between Rapaport and the United States Jewelry Council (USJC). These emails provide insight into the issues related to sanctions and the attempts by the World Diamond Council (WDC) and US State Department to control the USJC agenda. Please feel free to send your comments to Martin@Rapaport.com.

Subject: Rapaport Letter to USJC Regarding OFAC

To: David Bonaparte
CEO & President
U.S. Jewelry Council

From: Martin Rapaport
Chairman
Rapaport Group

September 1, 2023

Dear David,

The U.S. Jewelry Council is an important organization that can greatly assist our trade. Our US industry faces severe challenges related to US government sanctions regulations. Of primary importance is the designation by the US Office of Foreign Asset Control (OFAC) of Alrosa as a sanctioned entity.

We are facing a fundamental legal question regarding the legality of importing polished diamonds that were sourced from Alrosa rough and cut outside Russia. It appears that such diamonds are being regularly imported to the US because the trade thinks it is legal whereas it may not be legal. My letter to OFAC dated February 28, 2023 is provided below on page 2. I have not received an answer to the important questions stated in the letter.

I respectfully ask for the support of the USJC to get answers from OFAC as soon as possible. A statement issued at your meeting requesting a reply from OFAC would be an excellent first step as would a letter from the USJC to OFAC.

We are aware of the US State Department position regarding sanctions and ask that you do not confuse or combine the OFAC sanctions matter with the discussions you are having with the State Department. I am deeply concerned about the G7 effort and believe it will result in terrible greenwashing.

Please recognize that it is most likely that the US government strategic relationship with India will not allow any effective sanctions that are not in India's best interest. Also, note India is the prime buyer of Alrosa rough and they want those diamonds to have entry into US markets.

Obtaining a legal opinion from OFAC will reduce the political interference and get us straight answers that can ensure a level playing field regarding Russian Source diamonds.

I am available to talk with the group via Zoom should the members wish to do so.

Regards,

Martin Rapaport
Chairman
RAPAPORT

Attached Email

To: Office of Foreign Asset Control
US Department of Treasury
Treasury Annex / Freedman's Bank Building
1500 Pennsylvania Avenue, NW
Washington DC 20220

Sent Via Registered Mail

From: Martin Rapaport
Chairman
Rapaport Group

February 28, 2023

Dear Madam/Sir,

Our Rapaport USA Inc. and Rapaport Diamond Corporation companies are US entities active in the diamond trade. Our companies own and manage RapNet the world's largest diamond trading network, as well as Rapaport Auctions which transacts tens of millions of dollars of diamonds annually. In addition, our publishing division is the primary source of diamond price and market information worldwide.

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?

I am available via email [REDACTED] or via our NY office [REDACTED]. Please feel free to contact me for additional information.

Thank you,

Martin Rapaport
Chairman
RAPAPORT

➔ **Next Communication**

Subject: Rapaport Memo to the USJC and its Member Organizations

To: David Bonaparte
CEO & President
U.S. Jewelry Council

From: Martin Rapaport
Chairman
Rapaport Group

Rapaport Memo to the USJC and its Member Organizations

September 7, 2023

Dear David,

I strongly advise the USJC and its member organizations to reject the WDC G7 diamond protocol. This protocol will severely damage the US diamond, gem, and jewelry trade.

The USJC must represent the interests of the US trade and should provide an alternative protocol to the US government. Such protocol should be simple. It should start and end with US Customs requirements and procedures for the importation of diamonds into the US.

The protocol should require a declaration to US Customs from all importers and their foreign suppliers that to the best of their knowledge the diamonds imported into the US do not originate from sanctioned entities including Alrosa. I am available to assist the USJC in the drafting of such proposal. I encourage the USJC to vote on this matter today.

Thank you,

Martin Rapaport
Chairman
RAPAPORT

➔ **Next Communication**

From: David Bonaparte

Martin,

Thanks for the input. We will take it under consideration during this open input period.

Regards,

Dave

David J. Bonaparte

➔ **Next Communication**

From: David Bonaparte

Subject: "External" RE: Rapaport Memo to the USJC and its Member Organizations

September 7, 2023

Subject: "External" RE: Rapaport Memo to the USJC and its Member Organizations

Martin,

Thank you for your suggestions. You may or may not know that Industry already proposed a simple declaration to the State Department and other G7 countries. This is something that all in the industry would support. Unfortunately, the governments have rejected this proposal. We arrived where we are today with the G7 Diamond Protocol through a consultation process including government. They have clearly stated they want a process that includes some level of verification. This protocol and the process we have undertaken is currently being reviewed by all major trade associations in the US and many from around the world. This protocol will address the needs of businesses both large and small.

Through this consultation process we will continue to welcome suggestions to propose a solution that the entire industry can use to protect their supply chains.

We appreciate the comments and feedback you made during the meeting yesterday and did incorporate some of your suggestions.

With regard to Ronnie, we collectively discussed your comments and have agreed that Ronnie continues to demonstrate good judgment and has the best interest of the American diamond industry.

Regards,

Dave

David J. Bonaparte

President & CEO

➔ **Next Communication**

From: Martin Rapaport

To: David Bonaparte
CEO & President
U.S. Jewelry Council

From: Martin Rapaport

Chairman
Rapaport Group

September 10, 2023

Dear David,

Thank you for your email of Sep. 7, 2023.

Please share this email with the other members of the US Jewelry Council (USJC).

I will present several requests and then provide additional explanation and analysis.

1. The USJC and its member organizations must reject the World Diamond Council (WDC) G7 diamond protocol. This protocol will severely damage the US diamond, gem, and jewelry trade. Compliance with the protocol is beyond the capabilities of many small to medium size members of our trade.

The USJC must represent the interests of the US trade and should provide an alternative protocol to the US government. Such protocol should be simple. It should start and end with US Customs requirements and procedures for the importation of diamonds into the US.

- a. The protocol should require a declaration to US Customs from all importers and their foreign suppliers that to the best of their knowledge the diamonds imported into the US do not originate from sanctioned entities including Alrosa.
2. Regarding the US Jewelry Council. We have not been able to identify a legal entity with such a name. The website also does not provide relevant information. Is the USJC a legal entity or is it an ad-hoc collection of trade organizations?
 - a. Please provide the address of the USJC, A copy of its by-laws, conflict of interest rules, and a list of members. Please provide the criteria for the acceptance of members to the organization. Also, please identify how the organization is funded, its budget, and who has to-date provided funds to the USJC. In the event that other entities have been paying expenses of the USJC, including to the executive director, please identify them.
3. Please respond to my letter to you of September 1, 2023, requesting the support of the USJC for my letter to the US Office of Foreign Asset Control (OFAC) regarding the US import of "Russian Source" diamonds. These are diamonds that have been purchased from Alrosa and manufactured outside of Russia by non-sanctioned entities. If it is the intent of the USJC to ignore my request, please let me know.
 - a. Please note, upon information and belief, members of the trade that belong to the USJC organizations are importing "Russian Source" diamonds and this activity may be illegal. Clarification of this issue is vital for the establishment of a level playing field for members of the US jewelry trade.

4. Please be put on notice that the position held by Ronnie VanderLinden as Chairman of the USJC is a conflict of interest with his position as Vice President of the World Diamond Council. He should not be on the board of the USJC. Furthermore, his position on the board may be in violation of existing by-laws and conflict of interest articles - should they exist.

Comments.

The USJC holds itself out as representing the interests of the US Jewelry trade. As such it must prioritize the interests of the US jewelry trade over all other interests.

Your statement that “Unfortunately, the governments have rejected this proposal” is false. Brad Brooks Rubin does not have the right to reject a USJC proposal on behalf of the G7 or anyone else. Furthermore, Brad Brooks Rubin does not have the right or power to threaten the USJC or anyone in the US trade with worse consequences if any proposal is rejected. No one has the right to reject any proposal until it is presented.

Brad Brooks Rubin in coordination with the WDC are dishonestly manipulating the USJC as a negotiation tactic. The USJC is under no obligation to tailor its proposal to meet the interests of Brad Brooks Rubin, the US State Department, the WDC or the G7. The job of the USJC is to represent the interests of the US jewelry trade and no other interests.

You state, “We arrived where we are today with the G7 Diamond Protocol through a consultation process, including government.” Who participated in this consultation process? Upon information and belief, the consultation process was secretive and managed by the WDC to meet the interests of the WDC. Who is the “we?” Please disclose who participated in this consultation process? Was it only the WDC and their Ronnie VanderLinden who came up with the fait-accompli called the WDC G7 Protocol? The fact is we are being handed a WDC finished product that is unacceptable. A consultation process must be more than listening to people and then doing whatever you want.

Your statement “This protocol will address the needs of businesses both large and small” is false. The WDC G7 protocol is heavily biased in favor of large companies. Smaller and medium size companies do not have the human and financial resources to meet the extensive filing and auditing requirements of the WDC G7 protocol. If such protocol is implemented, they will be put out of business.

It is important to note that we are dealing with the livelihoods of thousands of US retailers, dealers and manufacturers. Adoption of the WDC Protocols will destroy their business. Furthermore, such adoption will remove these participants from the market resulting in a smaller less competitive market.

And now on to initial legal issues. While it is possible that DeBeers, Signet, and other large companies are leading and financing the WDC purely out of altruism, I do not believe that this is the case. Companies and people have interests and sometimes furthering of those interests through trade organizations is highly illegal.

Furthermore, sometimes those interests do not allow them to negotiate in the best interests of others. Does DeBeers or Signet want to push up against the State Department to better the interests of small to medium size US dealers and retailers? Is the WDC negotiating for us or themselves?

Upon information and belief, it is my contention that the implementation of the WDC G7 protocol will serve the interests of the larger companies against the interests and survival of many small to medium size companies that are members of your organizations. Adoption of the WDC G7 Protocol will eliminate many of your members.

We cannot ignore the fact that the WDC is highly influenced by the big companies that fund it. It is in their interests to eliminate smaller market players to reduce market competition and obtain higher prices for the products they sell.

Furthermore, it should be clear that the G7 does not have the power, and the US government the will, to stop the importation of diamonds into the US from India. As we enter the election season there is no danger that the administration will shut down diamond imports and alienate thousands of jewelers and millions of consumers.

If the US government wants to seriously stop the importation of sanctioned diamonds - then let them do so by investigating the money flow of the named importers and their foreign suppliers. We cannot do the work of the US government. They can and should follow the money.

Careful analysis of the overly complex WDC protocols indicates that they will be yet another greenwashing exercise by the WDC. They are much too complicated to be honestly implemented and will result in yet another check-the-box process. Before approving any WDC protocol, I urge you to have your members vote on it. We live in a world of interests. Before you or your organization sign off on this WDC G7 Protocol, ask yourself whose interests this protocol serves. One thing is clear, it does not serve the interests of the US jewelry trade, your organization, or your members.

The Rapaport protocol is straight and simple. The protocol requires a declaration to US Customs from all importers and their foreign suppliers that to the best of their knowledge the diamonds imported into the US do not originate from sanctioned entities including Alrosa. Nothing gets written on any invoices. If Brad Brooks Rubin, the US State Department or the G7 do not like our position, that's their problem. We live in a democracy and have members of Congress that will support us.

Thank you,

Martin Rapaport
Chairman
RAPAPORT

➔ **Next Communication**

From: David Bonaparte

This is a response from the USJC.



U.S. JEWELRY COUNCIL

September 21, 2023

Martin Rapaport
54 Betzalel Street
Ramat Gan 52521
Israel

Dear Martin:

We are pleased to reply to your letter of September 10, 2023.

The United States Jewelry Council, Inc., was incorporated on July 28, 2015, pursuant to the provisions of New York's Not for Profit Corporation Law. In confirmation of the foregoing, attached is a printout from the New York Department of State's official website.

Your letter contains various demands for action or inaction on the part of the Council. For the sake of continued good relations, we will assume your demands were actually intended as suggestions and recommendations and will consider them as such.

As you know, the membership of the United States Jewelry Council is comprised of America's leading diamond and jewelry trade organizations. A full list of the Council's membership can be found on its website. Each member organization designates one of its members to sit on the Council's Board of Directors. The Council was formed and remains committed to promoting and representing the interests of its member associations that together represent all members of the United States diamond and jewelry industry. The Council is also dedicated to maintaining and promoting consumer confidence in jewelry.

Be assured that every decision of the Council is made only after consultation with each member organization regardless of whether their own members are directly impacted or not. The Council has an inbuilt concern for the interests of all the small to midsize companies across every sector of the industry as these companies form the very large majority of the membership of the Council's members. Simply put, the Council represents the interests and concerns of large and small industry members alike and NOT only those of the large industry players as your letter would seem to suggest. You may be further assured that decisions of the Council are made in cooperation and consultation with government, but are not and have never been directed, much less dictated, by government or any representative of government.

Your letter has been shared with the other members of the United States Jewelry Council. Be assured that the comments and concerns expressed by you in your letter will be reviewed and considered at our next Board meeting.



U.S. JEWELRY COUNCIL

Your letter questions the right of Mr. Ronald VanderLinden to be an officer of the USJC. He holds that position as he was the appointed representative of one of our member organizations. We have reviewed your concerns regarding Mr. VanderLinden and wish to inform you that we find no basis for his removal as an officer of the USJC.

As you know, the USJC is actively engaged in supporting the G7 Governments aims of minimizing the ability of the Russian government to generate earnings from its diamond sales.

Respectfully we do not believe that your proposed letter to OFAC will provide any further clarity. Needless to say, any disagreements you may have regarding OFAC or the U.S. Department of State's position on issues concerning Russian sourced diamonds can be communicated by you directly to those agencies.

Regards,

USJC Board of Directors