

Realignment of Diamond Cosmos in 2011 By Alan Bronstein

A diamond may be forever but the players at the top are in constant motion. While convulsions took place in the wholesale rough diamond and cut diamond market, the monetary changes in the financial markets; the mining companies are reshuffling the cards.

The biggest news in 2011 in the diamond industry is that the Oppenheimer family has sold their 40% stake in the company they created, De Beers Consolidated Mining Co. for \$5.1 billion. De Beers mining company is now 85% owned by Anglo American and 15% by the government of Botswana. The equity of Botswana represents the fact that they are the largest producer of diamonds in the De Beers portfolio (capacity between \$3-\$5 billion in rough diamonds).

If diamonds have a meaning today, it is the Oppenheimer family that over the last 100 years has nurtured it to its present iconic status symbol. At one time De Beers controlled 85% of the world's distribution of diamonds and were considered an illegal monopoly by United States anti-trust laws. During the course of the last 10 years, De Beers divested itself of many of the mines it controlled in Africa, selling to junior mining companies and essentially reducing their control to approximately 40% of the worlds' diamond resources.

There has been a dual strategy to have the anti-trust obstacles removed that would allow for the birth of two new directions for marketing diamonds. The first was to create from scratch a chain of retail stores in partnership with LVMH called De Beers Jewelers. This was funded by \$200 million contribution from each company (\$400 million start up cost) and the gift of the trademark "A diamond is forever" as the slogan for the retail venture. For 50 years the slogan was used as a generic expression to support all diamonds produced by all mining companies. As De Beers market share was now shrinking fast in order to break the anti-trust liability, the company did not see the value to spend \$200 million a year promoting diamond purchases by the public. They wanted to force the other mining companies to either pony up or market their own brands.

Today we see the beginning of marketing strategies that try to differentiate diamonds from the mining companies like Rio Tinto (mostly Australian and Canadian diamonds) BHP Billiton (Canadian diamonds) and Alrosa (Russian diamonds). There are multiple junior companies that are mining in Africa, Australia and other smaller operations that have not yet begun to brand seriously.

Enter phase 2 of the plan. De Beers, which sells its rough diamond production to about 75 manufacturing companies, initiated a brand called "Forevermark", which is meant to be the name they put on every diamond that passes through their hands.

These branded diamonds are sold in their own jewelry stores and to other retailers around the world. Since this brand is in its infancy, time will tell if it becomes iconic like the parent company or its marketing slogan. There is a long way to go to build this brand but they are essentially the biggest and the first out of the box to move in

this direction. There are company brands like Hearts on Fire and The Leo and fine retailers with a heritage that create desire and add value, but this is a new focus for a mining consortium.

The new key words in the diamond industry are branding, sustainability and beneficiation. This shift in De Beers strategy has forced branding to be the life force of future marketing of diamonds to keep them relevant for retail jewelers, not just to compete against each other as much as against other luxury products. Generic is out and brands are in vogue. The model created by all other luxury products sets the bar high for these cult concepts. One can only look at the LV bag and wonder why every woman (or a majority) seem to be carrying one. De Beers and LVMH are hoping to create the same need in their Forevermark diamonds. With 40% of the diamonds originating from the De Beers mines, they will need the support from of a large percentage of the retail industry to pull off this added value illusion. The big question is still how will they differentiate from other brands.

Part of the motivation for this strategy was driven by the existence of what we call today "conflict or blood diamonds." These have been the easiest of natural resources for countries involved in civil wars to gain currency for weapons that sustain dictatorships in many African nations. We know this is a terrible stain on the idea of what has been created as the image of a diamond, love and romance. But the percentage of such diamonds varies between 1-2% of all the world production. So 98% are mined legally and cleanly and the others that harm people effect the psychology of the prospective buyers. No one would knowingly support these activities except criminals and these stones slip into the market even with all the safeguards that have been put in place. In all fairness, in many parts of the world there are "conflict minerals" like gold and other precious stones that also sustain the revolutionary activities of the few overlords.

Diamonds are singled out because of the their high profile and high value among other desirables. No one would buy a diamond if they knew for sure that it has caused suffering or death to others. Most legitimate countries in Africa have tried to gain control of their natural resources and are moving in the right direction. As the strife in Sierra Leone, Democratic Republic of Congo, Liberia, Central African Republic and Angola has reduced significantly, it is now Zimbabwe that is the rogue of the diamond world with their dictator refusing to cooperate with the rules established in the industry called the Kimberly Process. This mining and distribution system of rough diamonds is meant to keep the industry from a tainted reputation that threatens the integrity of all diamonds.

Sustainability and beneficiation are the new goals of the mining companies moving to enhance societies in these emerging and resource rich counties by improving their standard of living, which in many of these counties amounts to food, clothing, shelter and jobs. Until recently most natural resources were just exported from the source and there was no further benefit to the citizens. Now the new governments and the corporations are becoming partners in the development of the natural resources and using them to create jobs and sustainable futures for the local people. The example set by Botswana and Namibia as partners with De Beers, will hopefully be the way the whole continent will eventually interact, building sustainable jobs, societies and governments.

This development coined the new word “beneficiation”, which is essentially providing the resource countries the opportunity to participate in their own destiny. While this idea slowly evolves, the success of this movement depends on the end of the tribal conflicts that have fueled the wars, and fair methods for the developing countries for distribution of this wealth. As long as we can get these fundamental concepts under control, there seems to be a bright future in the worlds’ most popular natural gemstone to continue to be a symbol of enduring love, passion, and beauty.

Lets hope that even without the guiding force of the original diamond family, the Oppenheimers, we have reached a level of integrity to keep the flame of desire burning in the hearts of consumers. That is the only way that diamonds can remain the symbol that has inspired love till now. It looks like that is the direction we are headed.

Next: Are Diamonds an Investment?