

Tackling Industry Issues: Interview With WFDB President **ERNIE BLOM**



With his vast experience in the diamond industry and as President of the World Federation of Diamond Bourses (WFDB), Ernie Blom has a unique insight into the issues affecting the global diamond trade. Blom agreed to discuss them here:

What is the state of the polished market currently? Polished prices have increased strongly since the start of the year thus pulling up rough prices to some extent. How is the industry responding and coping with this?

The prices of rough diamonds are cyclical and if one considers the past it is clear that the same patterns repeat themselves year after year; yet our memories are short and we are quick to comment without looking back over the years. I firmly believe that the market remains very buoyant and robust and I have no doubt that at the end of the year we will feel positive about the year that was especially as we approach December which has always been traditionally busier. During the past 12 months we have seen an increase in rough turnover both in volume and value terms. I am concerned that the prices of rough are being inflated due to speculative trading and this remains a major concern for the industry at large.

The issue of liquidity for the industry is still acute. What can be done about this and what can the WFDB do to help?

I want to respond to this question firstly by making a statement that banking institutions remain our “partners” for without them this industry will grind to a halt. Our relationship with the banking industry is of paramount importance and it is the aim of the WFDB to build this relationship. We need to work together to find long term solutions to the financial model and it is my sincere wish to develop this and I would hope that at some point in the near future we can jointly host a summit to develop mutually beneficial structures for future growth.

We, as the diamond industry, must also ensure that we create a sustainable, profitable industry as this would go a long way in securing our growth and the relationship with the financial markets. The lack of profitability in the industry can also be ascribed to the way trade is conducted, namely consignment stock (Memo). When buying rough we pay in hard currency with no credit terms available – it then takes between four to six weeks during the polishing and grading phase before we can put diamonds in the market. At this stage we have already committed capital funds for six weeks and this process is now extended when diamond dealers have to act as “banking institutions” when providing stock to our customers on consignment with payment only due when stock is sold. With this incredibly long extended credit line set against the very tight margins under which we operate, it is no wonder that we, as an industry, lack profitability.

The issue of synthetic diamonds remains a concern for the industry. Is the diamond trade taking it seriously enough, or simply trying to sweep it under the carpet, as some have suggested is the case?

I need to set the record straight; we are not concerned, but rather aware of the role of synthetic diamonds. The WFDB has taken the lead in setting in motion numerous protocols for dealing in synthetic diamonds, i.e. the charter, the declaration on documentation and our stated position of taking action against anybody selling synthetic diamonds without declaring them as such. We would also like to see the diamond grading laboratories across the globe take a standard position on synthetic stones. We, as the WFDB, are not against grading synthetics – in fact, we encourage it. However, it is vital that laboratories differentiate between synthetic and natural diamonds in a very obvious manner, i.e. the color of certification.

The other conundrum we face is nomenclature. The producers of synthetics do not want to use that word and we want a description that will not confuse the consumer, such as cultured. I am willing to find a middle ground. I would also love to engage with the producers on the way forward together.

History has also taught us that if you ignore a potential issue or force it “underground” then you are creating bigger problems downstream. I believe that synthetic diamonds have a share of the market and this will remain and might well even grow. This does not concern us as long as we protect the rights of the consumer and make them aware when purchasing a stone whether it is a natural diamond or a synthetic stone.

Lastly, I want to extend a word of thanks to the GIA who have supplied a synthetic diamond detection machine free of charge to every member Bourse of the WFDB. My thanks also goes to De Beers and the HRD who are both devoting money and time to research and further developing synthetic detection machinery.

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The role of the diamond exchange has, inevitably, changed as companies prefer to do business from the privacy of their offices. Are trading floors still relevant to the diamond business?

The diamond industry is a dynamic industry and it has and will continue to evolve as needs change or technology changes. At the same time the industry is a very traditional one and certain “old world” charm issues are still very prevalent, i.e. the trading floor dating back many decades is still relevant and ensures that the industry remains “open door”. The big advantage of a trading floor is that it allows visitors the opportunity to trade in a very convenient manner.

In similar vein, we have seen the emergence of trade fairs being held on trading floors, in Israel, Belgium and New York. What is your opinion of the events?

Are they more valuable and relevant to the diamond industry than traditional tradeshow?

As said in the previous paragraph, they remain very relevant and the WFDB encourages its members to host these events and as such allow greater participation by all, including visitors. The WFDB also encourages the development of any initiative from its members. Tradeshow are equally important and the WFDB is working closely with countries to develop participation by its members. The two types of events complement each other and certainly form an important part of our strategy going forward. The WFDB is working with many shows to develop our marketing strategy for the diamond industry.

Ironically, given South Africa’s historic role in the diamond industry, its neighbor Botswana gets many more headlines these days. What is the state of the market in South Africa? Does it promote itself sufficiently as a diamond center? And would it be accurate to say that South Africa taken its eye off the ball as far as diamond beneficiation is concerned?

Historically speaking, South Africa was certainly one of the top diamond centres in the world, but we have seen a big decline in local polishing with more diamonds being exported to other cutting and polishing centres around the world. The decline in the local industry is certainly a reality and it does strongly reflect on the cutting and polishing sector. Having said this, South Africa still has a very vibrant diamond trading sector. The decline in local cutting and polishing now means that the country has become an importer of polished stones for its local market needs.

In order to resuscitate the South

African market from a cutting and polishing point of view, we would need government intervention and support as partners to help develop a vibrant industry covering all aspects of the value chain. Many skilled people have been lost to markets like Botswana and the country would need to step up training and job creation opportunities.



The manufacturing stage - part of the process from buying rough to selling polished in which manufacturers are essentially providing free credit to the industry, says Blom.

Similarly, can South Africa benefit from the growing power of Botswana's diamond industry?

Currently the opportunities created in Botswana are not fully exploited by South Africa. Gaborone does not have international flights arriving directly from the large markets, which means that most of the visitors pass through South Africa on their way to tenders.

This creates major opportunities that need to be exploited for the benefit of South Africa and the southern hemisphere countries as a whole. The diamond sector can greatly benefit from making South Africa a stopover. Furthermore, the tourism industry can also be bolstered by these visits.

Tenders have, for around the past decade, been a point of contention in the diamond business. Proponents say they promote transparency, while opponents claim they essentially only help producers by boosting prices and preventing small and medium size firms from taking part due to their relative lack of financial clout. Where do you stand on the issue?

The tender system was started in South Africa many years ago by both larger and junior mining houses which then evolved into global tendering businesses. The tender system is now firmly in place and provides mining houses

with a comfort level of achieving top dollar when selling stones.

I personally enjoy the relationship we, as diamantaires, have with producers and miners/diggers as it adds color and character to our trade, yet I understand that things change. I do, however, believe that this system will not be disappearing any time soon. Holistically, it does offer all buyers the opportunity to submit bids and if the price is right, the highest bidder will receive what was bid on. Unfortunately, the system is not without flaws. At these tenders, we pay up front which means that the diamantaire becomes a credit facility while the stones are cut, polished, graded and sold. This timeline has a major impact on cash flow in our businesses. A further potential problem with the tender system is that it could be exploited for profiteering by individuals or companies with large financial resources.

Finally, on a personal note, how did you start out in the diamond industry? What led you to become involved in public service which, necessarily, requires a lot of your time and attention, is done on a voluntary basis, and takes you away from your business?

I am a third generation diamantaire; my grandfather entered the industry in the 1800s. My son, who is a vital part of my business, will be the fourth generation from our family. At the early age of 23 I became a shop steward with

the trade union South African Diamond Workers Union (SADWU). At

SADWU I rose through the ranks to become the youngest vice-president and a strike leader in the mid-1970s.

I have served on a range of industry bodies as an executive and chairman for many years, including:

- Diamond Dealers Club of South Africa (DDCSA) – 12 years – Chairman
- Rough Diamond Dealers Association (RDDA) – 17 years – Chairman
- Master Diamond Cutters Association (MDCA) – 4 years – Chairman
- Jewellery Council of South Africa (JCSA) – 7 years – Chairman
- South African Diamond Board (SADB) – 26 years
- World Federation of Diamond Bourses (WFDB) EXCO – 12 years
- President of the WFDB for third term
- Special Diplomatic Advisor to the Belgium government on trade with Africa

My roots have always been firmly entrenched in community-based issues and I am a strong believer in giving back to society as is evident with my involvement with the wildlife preservation industry bodies and many other charities I am involved with.

Giving back is something that is very close to my heart. I don't do it because I have to – I do it because I want to do it and enjoy doing it. ♦

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