

WFDB President Ernest Blom's Speech at Presidents Meeting TLV

Good morning honored guests, colleagues, ladies and gentlemen, welcome to the 2015 Presidents Meeting. I have lost count of the number of times I have been to Israel, but it is always a pleasure to return. As I ate breakfast this morning, I had a view out to sea and of the early risers enjoying the beach. A beautiful sight, and a wonderful way to start the day. It is also, of course, a great pleasure to see so many familiar faces from the Israeli diamond trade, and also to meet all my colleagues, the presidents of the diamond bourses and members of the International Diamond Manufacturers Association.

I would like to congratulate the Israel Diamond Exchange for organizing this magnificent event. It's only when you have organized a Presidents Meeting that you realize how much effort is involved. It requires a huge amount of organization, logistics and sheer hard work, so on behalf of the rest of the family of the World Federation of Diamond Bourses, I thank you very much. And I also thank all the other members of the wider Israeli diamond industry for their participation and assistance.

We had a magnificent cocktail reception last night and I know we are going to have two intense days of discussions but we are also going to enjoy some wonderful social events. These meetings provide a wonderful opportunity to network and create new relationships – both business and social – as well as meeting your comrades and counterparts from across the globe.

Ladies and gentlemen, these are challenging times for the diamond industry – I hardly need to tell you all that. But I say it, nonetheless, because challenges exist to keep us sharp; to keep us on our feet; and to keep us quick-thinking and agile. They are not there to get us down and lead us to pessimistic ways of behaving. Let us always remember: we have faced such challenges in the past and we will do so again now.

We are, let us remember, an industry built on hope and optimism – we create and sell precious jewels that symbolize many of the best human

characteristics: love, commitment, and long-term relationships. People buy diamonds as a way of saying: "I believe in you; I believe in us".

Well, ladies and gentlemen, I am here to say that I believe in you, and I believe in us. We have all come through difficult times in the past. We are, after all, not selling everyday items like loaves of bread or cartons of milk. What we do produce, however, are diamonds that are timeless. They were created in the mists of time and they will, literally, last forever.

Conditions in the diamond industry are far from easy and they have been that way for quite a number of months. These are complicated times for the diamond industry across the world. I must stress that the WFDB is fully aware of the breadth and depth of these issues and that we are taking all steps possible to address them and to aid all our members. Indeed. It is precisely for that reason that we hold these meetings and they play a huge role in allowing us to further understand and internalize the issues facing us.

Unfortunately, there is no shortage of challenges: among the most difficult is the issue of falling profitability and declining bank credit. Our members face an uphill battle on a daily basis to secure funding. And we also face an almost impossible position due to the high prices of rough that we, as an industry, are paying and responsible for. We, as members of the diamond industry, also need to re-think our business strategy and consider deeply whether we should be paying such high prices. We need to continuously consider this element of our operations.

We want the banking community and producers to provide more assistance to our members because without the oxygen that credit lines provide and with the unrealistically high price of rough stones, doing business profitably has become almost impossible. We simply cannot continue with a situation where our members are losing money on an ongoing basis. We all love this business dearly, but we are here to make a profit so that we can ensure our livelihoods and those of future generations.

We hold ongoing meetings with members of the banking industry worldwide and continue to do so in order to secure credit lines for our trade. We also hold meetings with the producers. We need to collaborate more closely with the producers and let them understand that they must try not to give in to short-term considerations of profit, but rather see the importance of the long-term stability of our trade. It's true that we need the producers and their rough goods, but they must also understand that they also need us – the diamond manufacturers, dealers and brokers and everyone else involved in the middle of the diamond pipeline.

We have seen in the precious metals industry, for example, how the price of platinum is dropping to a level of around \$1,000 per ounce – that is a price level which makes it almost commercially unviable to mine it. In our industry, we are seeing an opposite but similar effect – rough diamonds are being offered for sale at a price that does not make it worthwhile to manufacture them. This is clearly a two-way street, and both producers and manufacturers must be able to operate profitably.

Of course, this is business, not a charity, but the producers must realize that without their diamond manufacturing clients, they, for their part, have no business. There has to be more give and take and there has to be concrete action on the part of the diamond miners. And our members must also consider more deeply the prices they are willing to pay. Unprofitable manufacturing is ultimately unsustainable.

Of course, our friends at the banks have their concerns, and we fully understand them. They are looking for more transparency from diamond firms. They want diamond companies, which have traditionally been family owned, to adopt a more corporate structure. The banks want to see diamantaires bring in more of their own capital and are not willing to fully finance transactions. The banks would like to see less Memo or consignment-based business being carried out.

We understand their concerns and we are all working to transform trading patterns to fit in with the latest banking requirements where required. However, banking officials must also realize that this adjustment takes time. It cannot happen overnight. We understand that there is a changing reality and that it is in our interest to adapt to it, but we need time to make those changes. We also need to ensure, however, as an industry, that we understand the need for change and think about the changes in reporting that are now required. This is a new era and we need to appreciate that and think deeply about how we need to adapt.

I would like to mention that we are working on a global template with ABN Amro that the banks and industry can use in order to fully understand each other's financial needs and requirements. And it will help the diamond trade understand the concerns of the banking community.

I am reminded of the great American comic Bob Hope who once, in his own imitable way, said: "A bank is a place that will lend you money, if you can prove that you don't need it." That is the feeling that many members of the diamond industry have, and we need to make it clear to the banking industry that that is the wrong approach. We are looking for an open and honest dialog that will provide solutions for us and reassurance for them.

The banks and the financial community really need to do more to help the diamond community and we need more than just talks – we need action. And our task is not made any easier by unhelpful reporting. Just last month, the highly influential *New York Times* reported, and I quote: "Banks worldwide have become more careful about lending to the *murky diamond industry*."

We are far from being a "murky" industry. In fact, we are a leader in terms of transparency and getting our house in order. How many other trades have opened themselves up and instituted widespread organizational changes? We have been pro-active in showing that we have nothing to hide and that we are willing to deal with challenges in a robust manner: whether in the field of conflict diamonds, overgrading and money-laundering legislation. Claims by

the media and non-governmental organizations to the contrary are simply wrong and we must correct them whenever they crop up because the damage that can be caused to our amazing products is unthinkable.

On the subject of finance, I would like to make a few comments on the work of the Financial Action Task Force, or FATF. I want to be very clear and stress that the work of the FATF in relation to the diamond industry is highly important. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. It has developed recommendations that are recognized as the international standard in these fields.

We, at the WFDB, have held meetings with the FATF and plan to have further such meetings. Indeed, we serve on one of the FATF's committees. We regard cooperation with this body as critical in order to ensure there is no doubt whatsoever in the minds of the public that the diamond industry has absolutely nothing to do with the areas of money laundering, terrorist financing or other high crimes. Such claims could cause irreparable damage to our industry by denting consumer confidence and we regard it as part of our mission to ensure that this does not happen.

We met with the FATF in Brussels a few months ago, and we intend to engage with this important organization again on a regular basis. It is clear to us that the WFDB, which represents the vast majority of the world's diamond industry members via 30 affiliated diamond bourses all across the globe, has a duty to provide very clear and accurate input and to reach a solid and amicable agreement with the FATF. The diamond industry has nothing to hide and is in favor of transparency, so we are very much in favor of engaging with the FATF to ensure its reports reflect the reality of the diamond business.

Ladies and gentlemen, another very important issue for our industry is that of synthetic diamonds, specifically when they are not disclosed. I know that there

is a fear that some consumers may prefer lab-made diamonds going forward. Maybe we should remember a rather nice comment made by the actress Jaclyn Smyth: Diamonds and angels are similar, she said. "They can't be made, you have to find them. Each one is unique." I believe this sums up perfectly the difference between natural, mined diamonds, and lab-grown stones made in a production line.

I know that our friends and colleagues at the Israel Diamond Exchange, 10 minutes away in Ramat Gan, does not allow the trading of synthetic stones in its buildings. This is an issue that each bourse can decide for itself. It is a perfectly legitimate decision. The WFDB, as an organization, does not have a stand on this issue, so each exchange can decide its own policy.

Perhaps we need to ask ourselves if synthetics, as long as they are disclosed, are the threat that we automatically believe them to be. Perhaps they can be a catalyst for higher sales of natural, mined, diamonds? Maybe they can bring new buyers to the diamond jewelry arena – specifically younger consumers and the so-called Millennials of 30 and under adults – for whom jewelry is way down on their list of wanted items after smartphones, tablets and exciting and unusual vacations. In rapidly changing times, we must be open to new ways of thinking and doing business. Sticking with long-held beliefs is usually unhelpful.

Another issue that is still making waves is that of claimed overgrading of diamonds by some labs, and this is another subject for which there can be no question of flexibility. Already, we have seen that one lab that was suspected of overgrading diamonds has been closed down. In addition, I would also refer to the case last month where the GIA in Israel recalled more than 400 diamonds that appeared to have been treated with a special coating that enabled their color grading to be 'improved' by several grades. There can be no place for such criminal activity, and I was delighted that my good friend Shmuel Schnitzer immediately started a series of meetings with all the relevant authorities and personnel with the aim of dealing with this case in the most thorough way possible.

Where there are bad eggs in our midst, we must have no compunction in dealing with them. This is a relatively small number of people, but their actions can have incalculable consequences for our many thousands of members across the globe. They must be rooted out and prevented from trading diamonds.

Ladies and gentlemen, please allow me to also say a few words on another issue of great importance to all of us: generic diamond marketing and the World Diamond Mark (WDM) initiative. The WFDB is putting all its weight behind the WDM because we recognize that generic marketing is critical for our business.

As I just mentioned, younger buyers do not regard jewelry as an obvious purchase. And a major part of the reason for that is that they are bombarded with adverts for other, seemingly sexier, items. Have you ever heard of a 20-something standing outside a jewelry store all night in order to be first in line to buy a ring or any other jewelry item? We have fallen behind the curve over the past decade when it comes to persuading consumers that diamond jewelry can and should be among the items to benefit from their disposable income.

We need consumers to regard regular diamond jewelry purchases as a natural and ongoing activity. Engagement and wedding ring purchases are fine, but there are so many other occasions for which diamond jewelry can be purchased and we need to show buyers those opportunities.

The World Diamond Mark was launched by the WFDB three years ago to promote consumer desire for, and confidence in, diamonds. The aim is for sales of diamonds and diamond jewelry to perform significantly better in the luxury product consumer market. And to reach that goal, the industry - from diamond producers to retail jewelers - is acting together to promote, advertise and market diamonds and diamond jewelry more effectively and visibly to the end-consumer.

The aims of the WDM are: to institute generic marketing programs to increase diamond and diamond jewelry sales; promote consumer desire and confidence in natural diamonds, provide retailer education and training to improve retailers' sales, and to push the Authorised Diamond Dealer program so that consumers understand the value of buying from such jewelry shops.

We have already seen positive results from these efforts. There was a very successful event in Dubai in February called the Dubai Shopping Festival which led to a surge in diamond jewelry sales. An extraordinary 3 million tickets were sold as the month-long event saw a 1-carat diamond and 1kg of gold raffled off every day, with 500 stores taking part.

And Pure Gold Jewellery, an international retail jewelry chain headquartered in the United Arab Emirates, was the first jewelry retailer to adopt and introduce the World Diamond Mark's Authorised Diamond Dealer program. This chain operates more than 100 jewelry stores in the UAE and India, and will be implementing the ADD programs to enthuse consumers and enhance their buying experience.

Just a couple of weeks ago, the creation of a new Diamond Producers Association (DPA) was announced. We are all delighted with this news, and we wish all success to its members – the major diamond miners. We would be delighted, of course, to work together with the DPA on this very important mission. A joint approach is, after all, required to deal with such a huge challenge.

In conclusion, and on a lighter note, can I just say that although I have been to Israel on many occasions and I know the Israeli diamond sector is rightly proud of the magnificent exchange that it has built, I am always amazed about the new things I learn about this country when I come back here.

Just last week, I discovered several new facts. For example, did you know that:

You can buy hummus flavored ice-cream in Israel;
Israeli academics produce more scientific papers per capita than anywhere else in the world;
Israeli cows produce more milk per cow than almost any country in the world;
The glue on Israeli stamps is kosher;
Microsoft has more employees in Israel than it does per capita anywhere in the world;
Israel has the highest number of museums per head in the world;
And, finally, that Israeli scientists have ruled that giraffe milk is kosher.

Ladies and gentlemen, this is an exceptional country from many points of view. Enjoy it.

And finally, I saw an interesting quote recently that could apply to the diamond industry just as it could to many other industries and situations.

Shimon Peres, an exceptional man who has done so much for this country, once said: "When you have two alternatives, the first thing you have to do is to look for the third that you didn't think about, that doesn't exist."

I believe that is what we need to do in the diamond industry. We tend to think that two alternatives are the only ones that exist. We need to think out of the box much more and find the third – and maybe fourth – alternative. It is only with such "alternative" ways of thinking, if you will, that we will find solutions. Let us commit here at this Presidents Meeting in our different forums to finding solutions.

An anonymous comedian once said: "The evening news is where they begin with 'Good evening,' and then proceed to tell you why it isn't." I would like to say in conclusion thank you and not just Good Morning, but a Good Three Days in the knowledge that we are members of a wonderful business and have a huge amount of which to be proud.

I know from my long experience in this amazing business that we are a resilient trade. We always land on our feet and continue the journey forward.

We must retain the hope and confidence that characterizes us. This is a wonderful business with extraordinary people and a beautiful product.

Let us remember always that diamonds do hold a very special place in peoples' hearts – irreplaceable and deeply desired. As the many times married actress Zsa Zsa Gabor once commented: "I never hated a man enough to give him his diamonds back!"

May I wish us all a fruitful and interesting President Meeting.

Thank You