

WFDB President Ernest Blom's Speech - Vladivostock

Good morning/afternoon everyone – I am delighted to be here. This is my first time in this part of the world – and it is certainly an eye-opener and a fascinating experience.

I would like to thank the organizers of this important conference – the Russian Federation government and Alrosa – for inviting me to address you.

As I am sure you all know, the World Federation of Diamond Bourses (the WFDB) of which I have the honor of serving as its President, represents all the official diamond bourses in the world. **With the possibility of a new exchange being opened here in Vladivostock, please allow me to give you a brief outline of the role of the WFDB.** As of now, we have 30 affiliated diamond exchange members covering the whole diamond world and on every continent.

The WFDB plays a critical role in the global diamond industry. I do not like to give out too many numbers, but I would just point out that 95% of the diamonds globally traded are by members of the WFDB via the affiliated bourses. That translates to more than 20,000 people.

The aim of the WFDB is to protect the interests of our affiliated bourses and their individual members, and to enable the amicable settlement or arbitration of differences and disputes between the individual members of the affiliated bourses and between the affiliated bourses.

Members of exchanges who are found to have acted against the laws and by-laws of their bourse and of the WFDB can be banned from all member bourses, thus ensuring that they cannot cause further injury. This acts as a strong deterrent to illicit activity and helps ensure that the global diamond industry is able to work in a smooth, honest and transparent manner.

We insist that diamond exchange members promise to uphold our traditions, principles of mutual trust, consideration and friendship. Abiding by these

principles ensures that they serve as a basis in business relations between members of the affiliated bourses worldwide.

The WFDB also aims to promote global diamond trading and to encourage the establishment of bourses, with the view of eventual affiliation of all centers in which diamonds are actively traded. In the past couple of years, for example, we have added bourses in South Korea and Canada to our membership. Needless to say, we have stringent requirements, and the WFDB insists these are met and diamond exchanges operate according to the highest international standards.

Ladies and gentlemen, I would like to address three specific topics today. These are: financing and investment opportunities in the diamond industry, marketing, and the challenge posed by synthetic diamonds.

Let me address firstly the issue of financing in the diamond trade, this touches on one of the biggest challenges facing our worldwide industry. We have seen declining interest among the banking community in providing credit to our members which makes the work of an industry such as ours all the more difficult because we are so reliant on capital to finance our activities.

The WFDB is taking a pro-active approach in this arena. We are working with ABN Amro Bank, the biggest provider of finance to the diamond and jewelry industries, on a template for the banks and our members. This aims to explain to diamond firms the concerns and requirements of the banks regarding the diamond trade. And it also provides the banks with in-depth information regarding the diamond trade and what it needs in order to operate.

There have been a number of initiatives in recent years to market diamonds as an investment opportunity. In all honesty, one cannot say that they have succeeded hugely. As we know, diamonds are not homogenous and it is therefore almost impossible to define a spot price as they come in many shapes and sizes and valuing them is an extremely intricate exercise.

We are currently seeing weaker demand for polished goods at the consumer end and extremely high rough prices that have made polishing the stones

simply not worthwhile. And these factors have not aided those companies who are trying to market diamonds as an investment opportunity.

We advise our members, manufacturers and others in the midstream part of the market, to be aware of the damage they are doing to themselves by buying rough goods almost at any price. This is what has pushed prices of rough diamonds to levels that are, frankly, totally unrealistic. As the great Russian writer Fyodor Dostoevsky once said: "The cleverest of all, in my opinion, is the man who calls himself a fool at least once a month."

And this leads, quite naturally, to the following issue: of promotional activity to boost demand for diamond jewelry. Since De Beers ended its generic global promotion work in the previous decade, the diamond industry has failed to develop a unified approach to take on this task until now.

How do we reclaim these buyers? This is, without doubt, a huge challenge for the diamond industry. And that is why the WFDB launched the World Diamond Mark (WDM) initiative. We need consumers to regard regular diamond jewelry purchases as a natural and ongoing activity. Engagement and wedding ring purchases are very important, 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.

We plan to work closely with the Diamond Producers Association which was established earlier this year by the major diamond producers, including, of course, Alrosa. This is a huge opportunity and we believe that only an initiative spanning the entire diamond pipeline can produce global results.

Whilst demand for diamond jewelry increased to an all time high last year of \$81 billion, the Millennials, that is younger people in the 18-35 age range, prefer items such as smartphones and other electronic gadgets and so-called “experiential” activities, such as a vacation to an unusual destination.

How do we reach out to the Millennials? We need to be talking their language and that is partly why the WFDB launched and fully supports the World Diamond Mark (WDM) initiative.

Globalization and the effect of the global financial crisis of 2008 have changed the world forever. Consumers have different tastes and requirements, especially the Millennials generation. That does not mean they do not want diamonds anymore, it just means we have to think much more imaginatively about how we present them as a consumer purchase option.

How do we reach this important demographic group? They are often immune to traditional advertising, seeing it as outdated. We have to use the tools they like – and that means marketing in a digital world, including Social Media – to reach them. But we also have to find a new language that will appeal to them. They have grown up in a completely different socio-economic and marital environment. They are plugged into a 24/7 news and information world and feel completely comfortable with it.

It’s also critical that we provide this age group with honest and up-to-date information about what we are doing to address some of the issues facing our industry such as conflict diamonds and our sustainable development work in creating minimal damage to the environment because these are issues that strike a deep chord not only with environmentally-aware younger people, but also with their parents’ generation.

I would like to move on to the issue of synthetic diamonds, and let me take this opportunity to let you know that the hard work we at the WFDB have done, together with our friends at CIBJO, has resulted in ISO 18323, the new standard for nomenclature for diamonds. Let me be as clear as possible: the WFDB has no problems whatsoever with such stones just as long as they are clearly disclosed. Their production levels are rising and becoming more

sophisticated, but most such stones are used in the industrial sector and the number of lab-grown diamonds that are gem-quality is still rather small.

Our overriding concern is that synthetics do not cause damage to consumer confidence. They must be clearly marked and sold as such. We have seen cases where synthetics have been added to parcels of natural mined diamonds. We have no tolerance whatsoever for such illegal activity and people conducting themselves in this way will be removed as bourse members, where it is found to be the case, and prosecuted for fraudulent activity.

Ladies and gentlemen, we meet here today at a time when the problems facing the diamond industry throughout the world have perhaps never been greater. Unfortunately, the natural inclination is to behave as we have done in the past - where there is never a SOLUTION to which a PROBLEM cannot be found, but we must avoid this at all costs. We are members of an industry that creates objects of exceptional beauty and which represent the very finest human characteristics of love and life-long commitment.

In addition, we are one of the most highly self-regulated industries in the world and that is something that all of us should be hugely proud of. Yes, it provides extra work and, yes, it provides extra scrutiny but that is a good thing, it gives the banks and the all-important consumer continued confidence in our industry and our product.

Friends, the world of today is vastly different from the one that you and I grew up in, and that is also true of the diamond business. Not only have times changed, but they will continue to do so. Technology is, in many cases, reducing the need for workers. Can we do anything about that and would we want to? The answer is clearly 'No'. We must embrace change and open our minds in order to find solutions.

To quote the Russian author Boris Pasternak: "What is laid down, ordered, factual is never enough to embrace the whole truth: life always spills over the rim of every cup." As in life, business is also much more than a pre-ordained set of rules and regulations. We must be willing to see what lies beyond.

As I say, there is never a shortage of challenges. We have seen global financial stock market turmoil in recent weeks. It started with the Shanghai exchange and quickly spread around the world. Some analysts claim the main concern in the markets is that the US Federal Reserve aims to start raising interest rates towards the end of this year rather than declining Chinese production and growth.

Whatever the reason, the diamond industry needs to be in a position where it is regarded as a purchasing option for all seasons: for bridal and other lifetime milestone events as well as a safe and secure investment option.

Despite the difficulties, let us remember that we are a resilient industry which has been through many crises over the decades. We have always found solutions and we will do so again. Millions of people around the world are still getting married every year. And many millions more still appreciate the extraordinary beauty of diamond jewelry and the exquisite designs of young, creative people who are using technology to aid their innovative skills.

Let us remember that last year saw a record high figure for diamond jewelry sales of \$81 billion. It is true that this year has been challenging for all stages of the diamond pipeline, so this year will be slower, but is nonetheless expected to be at least the same in terms of sales.

And, according to forecasts, there are expected to be 100 million new middle class households in the major diamond consumer markets by 2019, and this means there will be great opportunities for us all in the diamond business.

Let us encourage the habit of diamond jewelry buying for gifts as well as self-purchasing. More than that, let us retain our traditional optimism, and always see the light at the end of the tunnel.

Again, I would like to quote Dostoevsky: "Man is fond of counting his troubles, but he does not count his joys. If he counted them up as he ought to, he would see that every lot has enough happiness provided for it."

I wish you all an enjoyable conference and am happy to answer any questions, either now, or privately, on any issues.

Thank You