Message from Maxim Shkadov, President of IDMA to Industry Stakeholders

Polished first, than rough

Looking at the last supply cycle of the large producers, ALROSA and De Beers, we've seen an increase in rough diamond supply to the market. While this is encouraging, it is important that the producers, large and small, realize that the midstream sector is still weak and that most diamond traders yet have to receive payment for their holiday sales.

Therefore, as the midstream remains cash strapped, the last thing the manufacturers need now is for the producers to impose a higher price tag on rough diamond prices.

As I have argued before, my chief concern as the spokesman for the international diamond manufacturers is to ensure that our industry is nourished back to health and that we can obtain reasonable profit margins.

To achieve that goal, an increase of rough prices must only happen after a balance is reached i.e. after we've seen a healthy increase of polished sales, at higher prices. This, we expect, will still take some time and demand some restraint. Because if our advice is thrown in the wind, the supply of big volumes of rough will surely destroy the chances for the so much needed balance between rough and polished prices, and will lead to next wave of falling diamond prices.

With the danger of being repetitive, I'd like to pinot out once again that we can not forget that on the long term, low margins or even negative indexes will continue erode the financial health of the manufacturers and ultimately lead to their demise.

I therefore appeal to all manufacturers – the leading purchasers of rough diamonds – that when making a decision of to buying to be guided by the projected added value that the rough will bring to them and in case they do not see it, simply not buy. Buying rough for reason of "just being in the game" is unwise, and that is an understatement. In other words, stupid is as stupid does.

Contrary to times long past, the rough diamond producers do not take the profitability of the downstream market players into consideration and druing the past years they have proven time and again that their own interests surpass those of their clients and that a new era is here -- the era of real market relations, the era of buyer.

We all should acknowledge that the rules have changed, and the first who spoke of them was Mr. Philippe Mellier of De Beers: "If you do not see income do not buy." It seems that slogan has substituted the "Diamonds are forever" slogan.

And we should answer: “Work with clients, but do not impose impossible and unprofitable terms”. Indeed, for long periods at end, we were careful not to bring up the issue of our razor-thin or non-existing margins, but life has put everything in its place.

As you may remember we had discussed the opportunity of commissioning an independent study to look at the level of margins in the manufacturing part of the midstream pipeline. Edahn Golan Diamond Research and Data, was selected. The study focused specifically on standard rough diamond assortments, their production costs and the resulting polish value. The results of this research project are dismal and destroy any illusion anyone still may have had about profitability in diamond manufacturing. We are literary at a loss.

We, however, keep marching on. Dear colleagues, please let's keep moving our businesses forward, cultivate trust with our clients and set our hopes on the endless value of diamond!