

Trust

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I remember the old days, before certificates, price sheets, fax machines and the internet. I was an apprentice cleaver learning to sort diamonds in the office of Feival Doppelt, one of the great diamond men of Antwerp. Feival liked me and I was lucky to get an opportunity to work at one corner of his massive desk.

The desk was cluttered with huge piles of unsorted diamonds freshly delivered from the cutting factories. The pace was fast and furious with a steady stream of price negotiations over the phone and with buyers and brokers demanding immediate attention at the foot of the desk. Through it all we all worked relentlessly, sorting and selecting diamonds — turning the big piles into smaller piles of select merchandise suitable for one buyer or another. America needed the cheaper goods and Japan the fine stones. This buyer could handle a medium make, but another buyer could only use the best. The art of the diamond business was knowing what pile to put a particular diamond in, understanding what the customer needed and balancing that need with what was available.

Feival would look at my piles and every now and then take out a weak stone, replacing it with something better. At first I didn't understand and I thought that there was something wrong with my sorting. But no, that was not the problem. We needed to "take care of the customer," said Feival. We needed to have a "good hand."

The idea of the good hand originated from the fact that large diamond sellers know much more about the nuances of diamond qualities and liquidity than do buyers. While buyers deal in tens or hundreds of carats, large sellers deal in thousands of carats. When making assortments, it's easy to skew the parcel one way or another to the benefit of the seller. The challenge for the seller is to resist the temptation to take advantage of the buyer and to provide assortments that had what the buyer wanted, but also included a few better stones.

Nothing was said about this to any of the buyers and most didn't understand what was going on. But over time the buyers would say, "Feival has a good hand. We don't know why, but when we buy from him, we come out well and make a little more money than when we buy from someone else." And so the buyers would come back and they would insist on buying from Feival. For after all, Feival really did have a good hand.

Feival had a big, generous heart and it was part of his personality to be more interested in maximizing customer satisfaction than profits. He was also very smart and these days we would probably call him a branding expert. The truth of the matter is that Feival believed in and taught me something extremely important.

The real diamond business isn't so much about sorting or product expertise as it is about trust.

Having a good hand means that you take responsibility for your customers and what happens to them. You take care of them even when they don't know you are taking care of them. When you get right down to it, the trait that makes a great diamantaire truly great, is the realization that the diamond business is not merely about selling diamonds — it is about selling trust and confidence in the diamonds.

Feival's customers walked out of his office knowing that they had gotten a good deal and the confidence that they had in the value of the diamonds they bought from him projected out to their customers and their customers' customers. Whatever extra profits Feival didn't make by being "extra sharp" he more than made up for by having great customers who believed in him and his diamonds.

In the modern world of certs, price lists, commoditization and hyper-competition, the notion of the "good hand" seems quaint and misplaced. After all, isn't it the objective of business to make as much money as you can as fast as you can? Perhaps not.

In recent years, the idea that profits need to be maximized over the medium- to long-term instead of the short-term has regained credibility. It is the root of the De Beers-Diamond Trading Company (DTC) idea that we must optimize added-value marketing when distributing diamonds and it also explains why the DTC has this year implemented a policy of consistent rough assortments that are finally profitable to sightholders. The idea of the "good hand" is slowly working its way back into the business.

HPHT

The importance of the above story extends well beyond economic justifications for more enlightened supplier-customer relationships. The diamond industry is now entering a new era of great moral and ethical challenge. We must wake up to the fact that the application of new technology has reached a critical mass whereby treated diamonds are being sold into the marketplace without disclosure. Uncertainty regarding the source of diamonds, be they treated diamonds or conflict diamonds must force a fundamental re-evaluation of modern supplier-customer relations.

This issue of the Rapaport Diamond Report highlights the challenges presented by High Pressure-High Temperature (HPHT) treatments that greatly enhance the color and value of certain types of diamonds. HPHT technology that had been under the responsible control of General Electric (GE) and Lazare Kaplan International (LKI) has now found its way into the open market with numerous and sometime secret laboratories producing treated diamonds that are then sold into the market without disclosure. In some instances, the size and/or quality of the diamonds are such that they do not find their way to grading laboratories that might detect the treatment. In other limited instances, certain combinations of diamonds and treatment are not currently detectable by laboratories.

Hear, hear, there are people in our industry with "bad hands" that are distributing "bad diamonds" in a way that threatens the fundamental honesty and credibility of the entire diamond industry. These suppliers are poisoning the diamond distribution system and threatening the very

foundations upon which our industry is based — namely, the integrity, authenticity, scarcity and honest value of the diamonds we sell.

The Three Ds

Industry policy regarding treated diamonds relate to the three Ds: Detection, Disclosure and Documentation.

It is important to recognize that the development and marketing of treated diamonds with proper disclosure should be strongly encouraged by the industry. Proper disclosure of treated diamonds encourages consumer demand for enhanced diamonds and provides laboratories with information enabling the identification and detection of the treatment.

Consider the highly commendable introduction of HPHT by GE and LKI. GE and LKI did not only laser identify and technically tag their HPHT diamonds; they also shared critical information with the Gemological Institute of America (GIA) enabling the detection of other HPHT diamonds, including those sold without disclosure by other unethical suppliers. HPHT would be a far greater threat to the industry today if LKI had not disclosed the details of the process to the GIA. The enemy is not treated diamonds, but the nondisclosure of treated diamonds.

Detection

Detection is our first and most effective line of defense. Synthetics, simulants, fracture-filled and lasered diamonds are not a severe challenge, because these treatments are relatively easy to detect and the relative ease of detection encourages full disclosure. It does not pay to cheat if you can be easily caught. When detection is difficult or expensive and the economic benefit great, as is the case with HPHT diamonds, the incentive to sell without disclosure by unethical suppliers is a serious problem. Unethical suppliers cheat if they believe they will not be caught.

The fundamental problem is not merely HPHT, but the notion that the technology of detection is unable to keep up with the technology of development. Today it is HPHT; tomorrow it may be something else. The threat to the industry takes two forms.

First, nondisclosure and nondetection destroys consumer confidence. A wealthy consumer having purchased a very expensive vivid yellow diamond will be more than a bit upset if they later find out that the diamond was treated and they have been cheated. If and when detection technology improves, consumers will start catching nondisclosed treatments that were undetectable at an earlier date. There will be a rush of re-grading and lawsuits. Consumer confidence and demand for expensive diamonds will collapse. While laboratories can protect themselves by stating that a grading report is based on technology as of the date of the report, it is unlikely this will placate consumers. In the years to come, it may well be that the most important number on a certificate will be the date.

Secondly, nondisclosure and nondetection destroys product value. If treated vivid yellow diamonds are indistinguishable from nontreated diamonds, the value of nontreated diamonds will

decrease as the supply of treated stones increases. Overall scarcity will still be a factor, but the premium for authenticity will be lost. A diamond is only worth as much as our ability to authenticate it.

Clearly, detection research is to be strongly encouraged by the trade. The role of laboratories, particularly nonprofit organizations, such as the GIA, is crucial. The economics of detection research is supported by diamond grading activity. Advancing treatment technology encourages increased demand for grading reports that detect treatment. The profitability from grading report activity will be used by nonprofit laboratories to advance their detection research so as to ensure that they can continue to authenticate nontreated diamonds and preserve their coauthenticity. If laboratories lose their ability to authenticate nontreated diamonds, they may go out of business. How and if laboratories should share research is an important issue for future discussion. The industry should be thankful for the positive and cooperative role of the grading laboratories and De Beers as evidenced by important articles in this issue of RDR.

Disclosure

In the event that detection is unavailable or too expensive for certain classes of diamonds the diamond industry must rely on full and fair voluntary disclosure. This is already the case for conflict diamonds and may well be the case for certain categories of HPHT treated diamonds.

The effectiveness of voluntary disclosure is severely constrained due to the highly complex and interactive nature of the diamond distribution system. Except in very rare instances, a specific diamond's journey from rough to finished diamond jewelry is not auditable. Not only do diamonds change hands frequently as they move down the distribution pipeline, they are also sorted, mixed and resorted many times making documentation, of origin impossible in a trading market environment.

Absent the availability of detection and/or auditable documentation, the issue of disclosure is reduced to a matter of trust. Trust not merely in the person selling you the diamond, but trust in all the people that have bought and sold the diamond on its journey through the diamond distribution system.

The diamond industry is being put in a very challenging position. Expansion of treatment technology has created uncertainty regarding the authenticity and inherent value of certain diamond products. Customers are asking suppliers to guarantee that the diamonds we sell them are not treated and nonconflict. What is the diamond industry to do? Can we trust each other? Can we trust the distribution pipeline?

While grading laboratories equipped to deal with HPHT detection can protect us with regard to authentication of almost all better quality larger diamonds, smaller and lower quality HPHT treated stones that are not normally lab graded present a challenge to our integrity.

Frankly, it is time for the diamond industry to do a bit of soul searching. Diamond bourses must become proactive. Members who sell HPHT diamonds without disclosure should be thoroughly investigated to identify the source of the stones. Individuals who repeatedly submit HPHT stones

to the labs to test the limits of their detection should also be investigated. How many of us look the other way when we see questionable activity? Whatever holds true for HPHT should hold true for conflict diamonds. Are we doing a reasonable job protecting our industry? Are we as interested in the quality of the person we are buying from as we are in the quality of the diamonds we buy? Consider this — the color of a diamond is only as good as the trust you have in the person you are buying from.

It looks like technology will force the diamond industry to come full circle — to return to its roots. To recognize that the secret of our success is our ability to maintain a community of trust — a community of good hands. Sure, this may sound a bit corny to all you sharp dealers out there, but ask yourselves — what are you going to do when your customer, or your customer's customer, comes back to you with HPHT treated melee? Will you take back the goods?

It is time for us to recognize that the integrity of our diamond products is only as good as the integrity of our diamond industry. If we lose one, we will lose the other.