

SYNTHETIC DIAMOND SCAM

DiCaprio's synthetic diamonds threaten the lives of millions of artisanal diggers.

By MARTIN RAPAPORT

Some people think that synthetic diamonds are an important new addition to the jewelry trade. They believe that Millennial consumers will be attracted to more ethical diamonds created with advanced technology. Many dealers and retailers are embracing synthetics in a desperate attempt to maintain profit margins and survive in a difficult economic environment. While traditional diamond dealers and jewelers are still unsure whether or not to sell synthetics, some forward-thinking firms believe that synthetic diamond jewelry is the wave of the future and that Millennials will prefer synthetics to the real thing.

As one who creates and supports fair, transparent, competitive, efficient markets, it would be wrong to criticize synthetic diamonds because they are not natural diamonds. Markets and consumers should be offered the broadest basket of products and services. New sustainable products should be encouraged and rewarded. After all, aren't synthetic diamonds good if they breathe new life into an old, staid, traditional, declining diamond market? Shouldn't diamond demand be encouraged, natural, synthetic or otherwise?

Also, aren't synthetic diamonds a good thing if they force De Beers and other mining companies to significantly increase their marketing and promotion spend? Isn't competition good for business? Finally, who says jewelry industry profits should be limited by what comes out of the ground? Why can't cutters, dealers and retailers be able to make money from synthetic diamonds?

If there are good reasons to support synthetic diamonds, then what's the problem? What's wrong with synthetic diamonds?

Unfortunately, in spite of the positive comments detailed above, the way synthetic diamonds are currently

marketed and sold is fundamentally unethical, dishonest and misleading. Essentially, the current market for synthetic diamonds is evil and consumers that buy them are suckers.

MARKETING SYNTHETIC ETHICS

Those that market synthetic diamonds, claiming that they are a more ethical alternative to natural diamonds, are making false claims that threaten the lives and livelihood of millions of artisanal diggers.

One and a half million diamond diggers and the seven million people they support rely on the sale of their natural diamonds to sustain their lives. Those that market synthetic diamonds as an alternative to fair trade and development diamonds are taking bread out of the mouths of the poorest people in the world. The right, ethical thing to do is to support the diamond diggers by creating fair trade natural diamonds and jewelry that provide life and sustenance to millions of diggers.

While new products and innovation should be supported, we cannot support products that make dishonest ethical claims that harm people. It is highly unethical to claim that synthetic diamonds are more ethical than natural diamonds so that you can make more money, while destroying the lives of the poorest and neediest people in the world. Synthetic diamonds are definitely not more ethical than natural fair trade or development diamonds. Those that issue blanket statements and marketing initiatives that claim synthetic diamonds are more ethical than natural diamonds are liars. Instead of helping diggers become socially responsible and supporting fair trade diamonds, they are telling people not to buy from diggers. That is evil. (See "Letter to Leonardo DiCaprio and Statement by Ian Smillie," at end of article.)

SELLING A PRODUCT WITH CONTINUOUSLY FALLING PRICES

Synthetic diamonds are man-made, which means man can make unlimited amounts of them. It is important to note that synthetic diamond technology is driven by U.S., Chinese and other government defense departments seeking to create strategic military innovations. These innovations include Qbit diamond computers that multidimensionally store information at the atomic level and sophisticated lenses for laser warfare. Synthetic gem diamonds are an offshoot of defense department synthetic diamond research, which is strategically driven, highly budgeted and rapidly advancing.

Given global competition and unconfirmed reports of some 10,000 machines already operating in China, it is likely that supplies of synthetic diamonds will skyrocket. Furthermore, rapidly developing defense

technology and competition will rapidly lower their cost. Martin Roscheisen, CEO of Diamond Foundry, the company supported by Leonardo DiCaprio, has reportedly raised \$100 million to invest in synthetic diamonds. He claims that his “company can create pure diamond material at about 150 times the rate at which the industry now produces it.” With Alibaba’s infinite competitive lower cost supply proposition and Moore’s law of exponential technological growth, it is likely that synthetic diamond prices will fall by at least 50 percent every 18 to 24 months. Prices for less expensive synthetics will likely plummet faster as they are much easier to create and compete with. Given the unlimited supply scenario, I see no reason why synthetic diamonds should not settle down to price levels slightly higher than cubic zirconia or very fine-cut Swarovski crystals.

Artisanal miners pan for diamonds in the town of Koidu in eastern Sierra Leone. Photo: REUTERS/Finbarr O'Reilly.



Synthetic sellers make a big point about disclosing that their synthetic diamond is exactly the same as a natural diamond. That is not true. Natural diamonds have natural scarcity, which enables them to be a store of value. Synthetic diamonds have no scarcity and are not a store of value. Consumers think they are buying a diamond with all of its attributes. They do not realize that they are buying something that does not hold value.

The fact that sellers try to sell synthetics at a discount to natural prices, instead of on a cost-plus basis, enforces the lie that synthetic diamond values are just like diamond values — only cheaper. If Millennial consumers are tricked into replacing natural diamonds with synthetic diamonds that do not hold value, they may be turned off to all diamonds forever when they find out the resale value of their synthetics.

A price analysis of all the round 1-carat synthetic diamonds offered on Diamond Foundry's website indicates consistent pricing at about -35 percent below the Rapaport Price list. A similar selection of natural diamonds on Blue Nile came in at -28 percent below Rap, indicating an 8.4 percent discount for synthetics.

The fact that consumers are not fully and fairly informed about the fact that synthetic diamonds have unlimited supply and therefore cannot serve as a store of value is dishonest. Providing consumers with partial information under the guise of being totally transparent is a scam. Natural diamonds have consistently served as a store of value for hundreds of years and consumers mistakenly believe the same of synthetics.

Consumers have a right to know what they are buying. Do they know that the value of synthetics is unsustainable and that the price they paid will fall sharply in the years ahead? Would they buy synthetic diamonds at anywhere near natural diamond prices if they knew the facts? Consumers are being unfairly misled by synthetic companies that don't tell the whole truth. When they find out they have been ripped off there will be hell to pay.

WHAT'S A JEWELER TO DO?

Consider the retailer's dilemma. Should retailers sell synthetic diamonds? If they don't, they might lose a customer. If they do, what will they tell the consumer looking to resell the diamond in a few years? Whatever you do, you must be totally honest with consumers. Let them know that synthetics are not more ethical than

socially responsible natural diamonds. And let them know that synthetics are not a store of value. If you tell the whole truth and nothing but the truth, then it's hard to go wrong. On the other hand, while you may not be going wrong, you might not be doing the right thing either.

Love and engagement rings are the foundation of diamond demand. In my view the whole point of the engagement ring is that the man is giving the woman — or partner to partner — something of great value that will retain value. Sure they will go to dinner and he may buy flowers when he pops the question. Those things are nice, but they will be gone the next day. They are not the same as the ring that she will look at every day to remind her of his love. The woman expects the man to give her something valuable that retains value just like their relationship. Snapchat Millennials or not, getting engaged to be married is not about creating a snap-relationship with a snap-synthetic diamond that does not retain value.

In my view, once Millennials find out the truth about synthetic diamonds, they are less likely to buy them for engagement rings or as symbolic tokens of love. When Millennials get married — assuming they do get married — and give their loved ones plastic wedding rings from Cracker Jack boxes, then it will be appropriate to market synthetic diamond engagement rings to them.

THE MINING COMPANIES

Synthetic diamonds are a fundamental threat to the natural diamond industry. False claims and misleading marketing surrounding the sale of synthetics is having an impact; the diamond and jewelry trade is embracing synthetics in a desperate attempt to maintain profit margins. If the mining companies do not move forward quickly and decisively to promote and protect the societal role and market for generic natural diamonds, their assets will consist of nothing more than big worthless holes in the ground.

Make no mistake about it, Diamond Foundry is not some innocent synthetic company just trying to get a free ride on natural diamonds. Consider their blog with article headlines like "Scientific American: Surrounded by Diamonds, Villagers Go Hungry in Drought-Hit Zimbabwe" and "Leonardo DiCaprio Has Diamonds for You" and "Billionaires Back Lab-Grown Diamonds to Disrupt Industry."

“The way synthetic diamonds are currently marketed and sold is fundamentally unethical, dishonest and misleading.”

— Martin Rapaport

Why do you think synthetic diamond producers are raising the issue of diamonds from Zimbabwe? Make no mistake about it, the issue of dirty diamonds is on the front line in the battle for diamond consumers. Legitimate mining companies, dealers and retailers must separate themselves and the products they sell from Kimberley Process approved and greenwashed dirty diamonds that are promoted by misguided trade organizations. If the natural diamond trade is to survive the attacks by the synthetic trade, it is vital that we honestly and transparently communicate the origins of our legitimate socially responsible diamond sources. The ethical basis of the natural diamond business is on the table — front and center.

We must do everything we can to document socially responsible diamonds and exclude dirty diamonds from our distribution channels. We must proactively push dirty diamonds into the gutter where they belong. We must name, shame and blame those that deal in them.

The challenge to our natural diamond trade is real and dangerous. It's high time for the mining companies to get real and aggressive and honestly market and promote natural diamonds. Anything and everything that is good about natural diamonds needs to be communicated. But that is not enough. We must trump the synthetic competition and get into a real battle. We must attack the dishonest way synthetic companies are communicating about ethics and diamond value. Consumers need to be warned that synthetic diamonds do not store value and that their prices will collapse in the years ahead. Ads showing brides-to-be rejecting synthetic diamonds need to be aired. It's time to stop being politically correct and fight for the legitimacy of natural diamonds.

The mining companies are moving much too slowly. While it is nice for De Beers to be spending money promoting their brand, Forevermark is much too small to carry the market and is dwarfed by the huge supply of natural rough diamonds. The Russians, De Beers and others are foolishly worrying who will get a free ride, while the synthetic marketers are stealing our customers.

The \$6 million budget for the Diamond Producers Association (DPA) is too little, too late. Perhaps, just enough to develop a strategy, but not enough to do anything. We need at least \$200 million for generic diamond marketing and promotion. Stephen — let me make it clear: If you do not move forward quickly and decisively, DiCaprio will decapitate you. There is no time or room for politics. You know what needs to be done — so do it.

The idea that the mining companies should fund generic advertising and promotional campaigns with money from the trade is absurd. The trade has been milked dry by reckless rough diamond pricing and believes that the mining companies will continue to claw back any profits made from their advertising spend by increasing rough prices. While co-op advertising supporting diamond brands is a good idea and should be implemented, it is nowhere near enough. We need a full-blown campaign for generic diamonds and the diamond dream. And we need to attack synthetics.

The message to the mining companies is clear. Without aggressive and timely marketing and promotion of generic natural diamonds, your sales and revenue will drop to the point where your mines will no longer be profitable. You will go out of business.

In the year 2000 De Beers demanded that sightholders show how they were adding value to the diamonds they sell. Now it's time for De Beers and the other mining companies to show the diamond trade how they can add value to natural diamonds through the effective marketing and promotion of generic natural diamonds. ♦

March 25, 2016

Dear Mr. DiCaprio,

Your efforts to sell synthetic diamonds as an ethical substitute for natural diamonds threatens the lives and livelihood of millions of artisanal diggers in Africa. One and a half million diggers support an additional seven million people by digging for diamonds. These diggers are among the poorest people in the world, earning as little as one dollar per day. Their primary daily concern is getting food to feed their children. Things are so bad that in places like Sierra Leone, the child mortality rate is the fourth highest in the world; 12 percent of children die before the age of five.

Instead of using your fame and fortune to help these diamond diggers and their families, you and your company are falsely claiming that it is more ethical to buy your synthetic diamonds than their natural diamonds. You are literally taking bread out of the mouths of the poorest people on earth. And you are calling it ethical. That is super wrong.

Mr. DiCaprio — what will happen to the millions of poor diggers and their families if you succeed in convincing a new generation of Millennial diamond consumers that it is more ethical to buy your synthetic diamonds than their natural diamonds? Will you feed these people? Will you provide them with an alternate livelihood? Are you willing to take personal ethical responsibility for the suffering you will cause?

Dear Mr. DiCaprio, I plead with you to take two urgent actions. 1) Stop promoting your synthetic diamonds as a more ethical product than legitimate natural diamonds. 2) Use your fame and fortune to help us and others promote fair trade diamonds and jewelry that will ensure good living and environmental conditions while paying artisanal diggers fair prices that lift them out of poverty.

You can and should play an important role in promoting ethical consumerism and an ethical diamond trade. The real issue before us is not diamonds, it's people like the diggers in Sierra Leone and how we can use diamonds to help them. I urge you to contact me and follow up with a discussion about how we and others can create a more ethical diamond and jewelry trade that will significantly improve the lives of millions of artisanal diggers.

Yours truly,

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*A Message From Ian Smillie
Chairman, Diamond Development Initiative (DDI)*

Leonardo DiCaprio's investment in synthetic diamonds won't do anything at all to end the problems that he is concerned about: child labor in the artisanal diamond fields of Africa, bad working conditions, poor prices and environmental degradation.

Synthetic diamonds may have their own logic, but as long as natural alluvial diamonds exist, as long as people where they are found are poor and as long as nobody tackles the problem head on, bad conditions will persist. The Diamond Development Initiative is tackling the problem head on. It is organizing Sierra Leonean diggers around standards that will improve their conditions and their income, and which deal with environmental remediation and child labor. We have independent third-party monitoring of mine sites and we are creating chains of custody that guarantee the origin of these diamonds for retailers and consumers.

In the Democratic Republic of Congo, we are organizing legal status for miners, reducing their vulnerability to predators, and we are taking mobile schools to mining communities as an alternative for mining parents who don't want their kids walking five miles through the forest every day.

All of this is a work in progress, but the progress is good. As a man who is passionate about the environment and who helped wake the world up to conflict diamonds, it would be terrific if Leonardo DiCaprio could generate attention and support for the development needs of the people who suffered most from that trauma.

Ian Smillie
Chairman, Board of Directors
Diamond Development Initiative

