

Lecture on Synthetic Diamonds
By Martin Rapaport
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Mr. Martin Rapaport: Thank you very much. Hello everybody. It's sort of a challenge speaking after lunch to make sure everybody's with me. I'm from New York, sometimes I talk too fast and I have an American accent. Feel free to wave at me if I move too fast. So first of all, thank you to the Gem-A, which is the Gemological Association of Great Britain, as I still remember them and Uncle Harry. James has come in here and Amandine Rongy, who has been unbelievably helpful and she's this young woman who does everything. Now where's Jack? My buddy, Jack, who got me into this all. Jack's here somewhere. Thank you, Jack. Jack, you've been a great friend all those years. And to the sponsors and the organizers. And really, congratulations on the 100th anniversary of this first gemological diploma. I'm like, wow, 100 years.

Does anybody really understand the 100 years? I know there's someone 92 years old who was one of the first people, but what is 100 years like? Go back, there's no one alive who got that first gemological thing, right? I guess, if the youngest person is gonna be 20 years old, it will be 120 years from now. So we can't really relate to 100 years as being in our lifetime. We're passing through time, but Gem-A, it transcends our time. Before us and after us and so the question is why does it survive? Why is it still around? What does Gem-A have that allows this thing to transcend our own lifespan? It's got to be important if it's able to go beyond our lives. We always live through our lives, but essentially we want something that's permanent in all of our lives. We want something to transcend us, to be beyond us.

So what is that thing? What's real, what's permanent, what survives us? The importance of 100 years of Gem-A is something that transcends us through time. So there's something going on here that's more important than us as individuals.

So why has the Gem-A survived us? It's not just the knowledge, or even the sharing of knowledge, because there's a lot of knowledge out there and knowledge does transcend, and it's a good thing, but it's the greater good brought to society. The whole world, through transparency, honesty, and fairness. So, values that create trust and confidence in our products and people. That's what Gem-A in my view is really about. It's about values. It's about the ability to be truthful and honest and know enough to talk about a product.

So in a certain degree, you folks here, Gem-A, are the keepers of the faith. You have the

keys to the kingdom of honesty and truth about these gems that so many people know so little about, but so few people know so much about. That's a tremendous treasure that you keep for generations. It transcends you. We'll be all dead and gone, but still the values of Gem-A, and the values of honesty, will survive us. That's really important and I really congratulate you. That's one of the reasons I came out here is that, wow, 100 years, that's so important.

So Gem-A is about sustainable values that transcend time. Knowledge, transparency, honesty, and fairness. If we stay true to that then there's no reason that in the next 100 years or 200 years there also isn't going to be other people speaking in this room, which also transcends us, so that's really cool. I'm very proud to be here, to be able to speak with you on this tremendous occasion of 100 years.

I was thinking about 100 years and a lot of people accuse me of coming up and creating problems with my price list, but I will have you know that I am not the first person to come up with a price list. It's not my fault and you can see here that in 1751 was the first price list for diamonds. Here it is by the way. (Holds up book) I have the actual book with me. It's an amazing book actually. It has price lists. It was written for the king. 1751, King George II. We'll be talking about another king today, too. King George II. It was written for him to appraise diamonds with a theory of diamonds and lo and behold the actual price list from diamonds in 1751. So this is very powerful tool when we think about it and one wonders what's going to happen. 17, 18, 19, 2000, that's a lot of years ago. 300 years ago, and you wonder what diamond prices still look like.

But in any case, we should know that our past is our future. How we think about things. The ideas that Jeffries had were fantastic in its time, but they've also transcended his life however many hundreds of years later. He never actually had been in this Goldsmiths' Hall or one of the older ones. But I think he was here as a matter of fact, if you read his book. But look at how we're talking about him now and look how we can have ideas and do things and really transcend our lives.

So we're going to talk a little bit about the diamond trade. I'm going to break down my speech, and focus not so much on economics as I usually do, but more on this whole synthetic state.

But first just a little brief discussion about the diamond market so you can get a feel for it. It's about \$15 billion of rough; \$23 billion goes to polished, \$8 billion added value. \$50 billion minus diamond jewelry, so basically there's \$35 billion of added value. That's what everybody's fighting about. Everybody's trying to grab that \$35 billion and that's really what makes this industry tick. We would like to get added value to diamonds.

If you ask me what is the one thing a young person should know about the diamond business and what should I do: add value. If you can add value to the diamond, design, grading, knowing customers, communicating, that's all good. If you're not adding value, get out of the business now and don't even bother. Okay, so it's all about adding value and that's the fight that's there.

Now there's some very strange things going on in the diamond business. A lot of people, including the mining companies, believe in this [supply and demand] graph. Yellow is the diamond demand in billions of dollars. As you see it goes up to the year 2025. A lot of factors would cause demand to increase to millions, tens of millions, hundreds of millions of new consumers in China and India. With the inevitable depreciation of the dollar, a lot of things will happen. And the red line is the diamond supply in millions of carats.

So if you got carats this way and demand in dollars that way, what you see in the end is the price increase. So a lot of the mining companies say, hey, don't worry, diamonds are great, they're going to be worth more money, at least 4% more a year, maybe a lot more. If this is the story, we might as well keep it in the ground. We are going to manipulate and control the supply of diamonds, because over time they will be worth more because there's going to be growth in foreign demand, weaker dollar value, and few new markets. That's the theory.

This theory is backed up, by the way, with simple demographics and you can see that the world is growing. China, sitting there with 1.2 billion people, strong growth rates and poor people. The good thing about poor people is they eventually become wealthier and then they buy diamonds. America and England, England is stuffed. How many diamonds are you going to sell here? As a matter of fact, you're better off buying diamonds out of here, as in America, but you have all these hungry new Chinese and Indian people, they actually want the stuff. You don't have to push it at them. They come to you, 'give me diamonds, give me diamonds.' So

there's a tremendous opportunity here. People who aren't so wealthy, emerging middle class people, and that's the demographics that shows that there will be probably about 70 or 80 million new consumers every year for something like 10 or 15 years. So the outlook in demand is pretty good.

Also on the demand side you've got these five guys controlling 90% of the diamonds. Five phone numbers, five people, what a tight bunch?! I mean I worked very closely, I wrote lots of letters to the European Union to get De Beers and the ALROSA people to stop colluding together. Well, they still signal. But having said all that, okay, you still have about 80% of the diamonds between the two of them. So it's a pretty tight supply scenario.

So what's really going on? You see this graph. Look at this. See this is reality. See, theory doesn't always match in reality. So what's really happening? Look at this stuff. Carats in millions go up and down because five or six guys control all the diamonds and keep pulling them back. So the yellow line's really weird. It tells you that after 2008 they really reduced the supply of diamonds coming into the market, that's carats. But prices went up 74%. Where supply went up around 6%. That's price increase. We're telling you over here we made more money for less diamonds.

So basically the rough people have been squeezing, what we say in Yiddish, is the *kishkes*, squeezing the guts out of the diamond industry by raising those rough prices and that's what it looked like. So don't cry for the diamond mining companies, please. They're starting to come down in price because prices were so unrealistic before. They're not sustainable. So we look at the diamond industry and we see that rough prices go up. What you're looking at now, at rough prices, polished prices, yellow's polished, 2008, *boom*, rough crashed faster than polished, came back up and now rough is ahead of polished. The red line is higher than the yellow one.

Which means, if you're a diamond manufacturer you're fundamentally a sucker. You've got De Beers and the mining companies on one side squeezing higher prices. You have very volatile strange things going on, on the demand side, because even though there's more people in China, demand runs hot and cold. The United States is now the major market for diamonds, as it once was, but China is no longer the driving market and India has so many problems, oh, I

don't even want to talk about it, okay? But India is really, really messed up. Their government is utterly destroying their economy. But India's not buying, China's not running that much at all and so you have a scenario where polished prices are lower than rough. Take a rough diamond, cut it, and you're going to lose some money. That's a non-sustainable situation. You're squeezing the market.

We could talk a little more about it later, but you know, what's really going on over here is that the Indian government wanted to support their diamond industry so they made easy loans available. I mean billions of dollars. So what's going on is that the banks are giving the money to the Indian diamond cutters. Since they have so much money, they're buying the rough and then they're losing money on the polished. So really, the mining companies are ripping off the banks and using the diamond guys. That's really what's happening. It's kind of sad, but anyways, that will stop and I would anticipate rough prices coming down soon.

So we're in an artificial situation right now that is not sustainable. Restricted rough distribution 90% controlled by five companies. Reduced availability to support unsustainable high rough prices. They're pulling back the goods to make sure that the prices stay high. They're trying. Easy Indian credit and you have to understand, the mining companies are not evil, they're just corporations, and so their job is to make higher prices. If you've got a diamond mining company, how are you going to make more money? You can't find another diamond mine every two weeks. And your board of directors is saying 'more profits, more profits, see Apple's growing, this one's growing, that one's growing, how come we're not growing?' The only way you can grow is by increasing the prices for your products. If you can't find another mine, you can't get more profits unless you raise prices. So these guys are like price addicts. They wake up every morning, 'how can I increase prices?' So they've stopped generic advertising and they're milking the polished markets. That's what going on.

You really have to ask questions, for instance, De Beers did a lot of good things and all that, but when you think about it, how were they adding value to diamonds? Who needs De Beers? I think it's one, the government needs money, they own the mines, but you really have to ask questions about adding value like I said earlier. So some of these mining companies aren't really adding, they're not doing this generic advertising, and so I'm looking at them and

saying the old world is no longer. There is no sugar daddy. No one here to help us, no one here to sponsor our dinners and stuff, from De Beers at least, from the mining companies. So the mining companies are a big question mark.

Diamond prices go up and down with the economy. That's why we try to keep rough up there, but diamond prices ebb and flow. This was the story in 2008 and that was the story of the decline in Chinese demand. There was a build-up, a speculated build-up and a coming down. Funny, when you look at polished prices, you're going to see a similarity between all of these prices. The yellow line here is also the one-carat. So you kind of see that things kind of flow together for certified GIA or graded diamonds. Okay, so that's normal. But look at this, this is melee. I'm going to talk about melee today because I'm going to talk about synthetic diamonds. Look at melee.

It's not the same, big increases in 2009, but it's kind of bouncing around over there. It does not exhibit the same things, which tells us that diamond markets are differentiated. Tiffany's isn't Wal-Mart, and they're both big. Melee versus single stone serves different markets. So GIA says don't worry about the CVD, we got it handled. Yes, they've got it handled for stones that you can spend \$100 to have it certified. But if you've got a five point melee here and if the goods are \$150 a carat which means a stone costs \$7.50, you're not going to spend \$20 grading the diamonds. So we've got to look at what's going on between these different market sectors and promotional versus high end, Tiffany versus Wal-Mart, melee versus single stones. So there's not one simple diamond market out there. We're talking about different kinds of markets and I'm going to be talking a lot about melee pretty soon.

But first, one of the biggest problems in the diamond industry that we have to relate to, and this will lead directly into synthetics, is this whole idea of a level-playing field. One of the biggest problems we have in our industry, it's very hard to be honest. It's almost impossible. Look, in the United States, Great Britain, you can't bribe people. You can't go out to Africa, give a dictator or somebody in Zimbabwe, \$2 million or \$5 million and get your diamonds 30% cheaper. It's illegal. You'll go to jail, or something. But if you're an Indian, what's the problem, it may not be legal, maybe, but you can write it off as a business expense.

So if I'm getting my rough at \$100 and this guy's getting it at \$70, how am I going to

compete with him? How can I play this game? It's not fair. Okay, it's not fair because people were taking synthetic diamonds, putting them into parcels of melee and selling them. Okay, we understand that, everybody understands that. But what about things like bribery? What about ethics? You go out there, you buy some diamonds today and they could come from the Congo, they could come from Angola, they could come from Zimbabwe and everyone thinks it's okay. Just because you can't test it with the GIA to see if someone died or was abused or raped for that diamond, is that okay? But we just hear, 'oh get away, don't tell me about it.'

What the industry has done, and I actually worked for years on the case of the KP, which is the Kimberley Process, the industry tells them don't worry, it has a KP certificate, it's fine. But it really isn't, because the KP doesn't check for human rights abuses. So it's like saying it's okay when it's not. So the Kimberley Process is essentially a sham and it's a scam and it's wrong. It's ethically wrong. And then you've got the story about the Belgians in the Antwerp World Diamond Center. They're running after Zimbabwe, 'come on give me those goods.' They got the whole EU to change the laws so that Zimbabwe is now considered okay, while the US government, which isn't the greatest thing in the world, but at least they're saying don't buy goods in Zimbabwe, they're under sanctions.

But is this okay for us to chase those diamonds where there is no responsibility regarding where the money is going? Is that okay to do? By the way, here's the funny part. You know, G-d has the most incredible sense of humor. The diamond industry screws around with human rights abuses, doesn't check, makes believe they don't know. So what does G-d come up with? Synthetic diamonds! Here, if you want to get screwed, here you go. There is justice in this world. You know, I always say the world is round for two reasons, one reason is: what goes around comes around. You do good things; good things happen to you, you do bad things; bad things happen to you. I honestly truthfully believe in this Karma stuff. You don't have to be Jewish, you could be Indian, you could be a Buddhist or whatever. So that's one. The other reason: you can't push Rapaport off. So, this idea that we don't relate to this ethical story. This idea that we don't relate to fairness in markets and level-playing fields. Then you have India, which is blowing bubbles. A bubble is when prices get too high.

By the way, these people aren't evil. They're just trying to do what they can to make a

living. So you're going to blame the Antwerp World Diamond Center for running to the government to say we want to import diamonds from Zimbabwe because the Indians are doing it and why shouldn't we do it, we should make money? They just want to make money. They're not looking, they're not being aware. So India provides extensive credit, 'give credit so we'll have work.' There are 600,000 diamond cutters in Surat. Okay, I can understand that, but then that credit raises rough prices. Because there's so much money chasing such little rough, and since rough prices get so high no one can make any money cutting the stuff! So the good intentions become the rule. The biggest rule you can learn is that the road to hell is paved with good intentions. And it's the unintended consequences that dominate.

All you students out there, remember this: it's the unintended consequences, it's the things that people didn't plan for. They had the best intentions and people are sweet and wonderful. Those are the people you really have to watch out for, okay? So they give credit, there's transfer pricing -- basically, India lost \$11 billion in foreign currency over the last three or four years, and Dubai mysteriously gained \$3 billion. Well two and two is 22 in that world. And now India wants to put a 5% tax on the imports.

So I'm not here to confuse you so much, other than to say, if fair is fair then fair has to be fair and it has to be consistent. If I have enough time I'm going to show you a four minute flick because this is -- these guys in Africa, and they're black and they're not here right now and they're diggers and they can't tell you and I can't tell -- I can tell you, but they're better to tell you. So what we're going to do now is we're going to give you a video; video, ta-da Okay four minutes rest from me.

Okay fair trade. At that time approximately 23% of the children died before the age of five in Sierra Leone. And I don't know what these people -- and don't tell me about government regulations. And they're not going to say the governments are really bad, but governments are bad. When you're living in a world which is a failed state and 23% of the kids are dying before the age of 5, in that case, if it was you, what wouldn't you do to keep your kid alive? Who here wouldn't smuggle a diamond?

So the way in which we in the Western, rich world relate to these people is highly inappropriate. It's not our fault; well, it is our fault because we have to be responsible for what we buy. But we live in a competitive world and what can we do? But I wanted you to see and understand the idea of fairness as to how it applies to people we treat out there. We make millions of dollars in diamonds, our industry, we seem to be living pretty well, and these guys aren't and I don't know how we deal with that. I mean, I always say there's a reason G-d gave the poorest people in the world diamonds and one of the richest people in the world the ability to buy them. So there's something wrong here, but I'm not here to give you a guilt trip today.

I'm just here to build your perception of what fairness means and fairness isn't just about us making more money or being threatened by synthetic diamonds. Fairness is about us looking at the whole package and asking ourselves a question; just what kind of industry are we? Just what do we believe in and where are our values? And those values need to be presented, need to be part of our product. The value of education is very strong in Gem-A, the value of being able to protect the consumer. Maybe we can transcend and protect the supplier. But these values are the key and the essence of the diamond industry.

This is kind of a synergistic approach where you've got to look at fairness across the board. Now, when we talk about synthetics just bear in mind the level-playing field and African diggers. What they say, by the way, is just as important as what anyone else in this room says. These guys are members of the diamond industry too. They may not have Gem-A membership, but they're members of the diamond industry as much as any of your retailers, as any of you guys out there, and just have them in mind a bit when you deal with these fairness issues because you'll see how it's all really one issue.

Okay, synthetic diamonds, what's the game? I said 15 years ago when they first came

into the market -- detection, disclosure and differentiation. As long as you can detect the stuff, as long as you can disclose what it is, then you're not lying to your customers, and as long as you can differentiate your markets, then no problem. G-d bless synthetic diamonds, let them grow and be prosperous. But the problem is detection. You can do lab-graded detection, but you can't test melee where the cost per stone is, I don't know, one-tenth, one-fifth of the cost of the detection. You can't detect every stone in a parcel of melee.

So disclosure and differentiation are not happening. There are reports of diamonds being mixed and sold in parcels all over the place, and the idea of the diamond industry was that I can get away with it. 'I can get away with blood diamonds, why can't I get away with synthetic diamonds?' So everybody just does what they can to get away with stuff. Now listen, there isn't a huge amount of CZDs coming out, as far as I can tell so far, but this is the beginning, and at Rapaport we like to tell you about that stuff before it really hits. So we're early on this, but it's there, it's coming in bigger waves.

So if disclosure and differentiation are not happening, we have a problem. Well there's a story about the apple, the snake, Eve and Adam. So think about the story here. The dealers say, 'I've got this parcel of diamonds, I didn't know, I didn't know.' Tell me, did Eve tell Adam that this apple is from that tree? Or did Eve eat the apple because she really wanted to try it? She felt she was going to be mortal now and she didn't want him to outlive her and make out with another woman? Sounds terrible, but it's true. So Adam says, 'I didn't know, she didn't tell me!'

So dealers say, 'I didn't know,' and when you think about this a little deeper you understand that there's a mixing problem and a need to create a service. So if a jeweler says I need 20 10-pointers for a tennis bracelet and they have to be the same price range, the same quality, etc. Now you have to get a parcel and the rough gets mixed here and then the polished gets mixed there. So really, it starts to become very hard in the existing system that we have for us to be able to track the diamonds in that kind of a mixed market atmosphere with a tremendous amount of merchandizing. So a lot of times the dealer doesn't really know, and it's putting a burden on them to know, it's a problem. So they say, 'I don't know, I'm not responsible.' But the buck stops with the retailer.

I'm familiar with the laws of the United States Government and the Federal Trade Commission, but I'm pretty sure even when it's the same you can't say, 'I sold you diamonds' or, 'I told you they were diamonds,' or 'they're synthetics and I didn't know about it.' What consumer's going to buy that?

So the buck does stop with the retailer. The retailer is responsible and some guy in India or Israel or wherever they are says, 'well you know I mixed this, I sold it, I don't know anything about it. It's sold. It's gone. I got my money. Goodbye.' They don't see the horizon of the diamond moving those last 18 inches. The diamonds can go from Africa to Belgium, to sorting to cutting to polishing, they move all the way around the world I don't know how many times. But it's the last 18 inches across that countertop, that's the most important movement of the diamonds. And they don't even want to know about it. 'It's not my problem.' This not my problem-ness is the crux of one of these major problems here. It's sort of like, 'I don't know what this guy in Africa's doing. It's not my problem if he has to have a problem. I don't know what the jeweler's doing. If it's good for the goose, it's good for the gander.' So what they say is full disclosure and full refund, not to mention the reputational risk.

I was just reading in the paper the other day, on Saturday, and there was an interview with Gerald Ratner, a very interesting guy. He was talking about something bad once and it cost him some of his business. But the bottom line is, we have this reputational risk here too. Short-term versus long-term market behavior in thinking, and that's another part of our problem here, okay. Because the retailer cannot afford to play around with this stuff. You have to know where your goods come from or, - and this is the fun part, jewelers selling normal non-certified diamonds and diamond jewelry will have to disclose uncertainty about authenticity.

Since you can't lie, you don't lie and you say, 'my good customer I have these diamonds. Some of them might be this, they might be that. Here's this beautiful piece of jewelry. Don't you want to go home and hang out with your girlfriend? Or don't you want to celebrate your anniversary?' And so what they're going to have to do if they can't differentiate the product is sell them together.

So I predict that what the retailers who have to be honest will do, is that they will start to say, 'we don't know, I'm sorry.' Look at what happened with the cultured pearl trade versus

natural pearls. People just accepted what's out there.

In my mind if this happens, what you're going to see is you're going to have a scenario where, why should you sell expensive natural diamonds if you're telling the consumer they might be synthetic. So then you start to justify, 'I'll sell synthetics. Let's legitimize and sell synthetics. Why not?' You've got to understand, if no one owns a mine in this room, what are you worried about? Jewelers make money. They buy for X, they sell for X plus Y. They make their customers happy. So, if they're selling diamonds, pearls, rubies, emeralds, synthetic diamonds, who cares? So the people who sell the large amounts of jewelry to the masses, what are they going to do, they're going to spend \$10 on every five pointer? Be realistic here. So what I'm predicting is that you're going to see this movement toward synthetics legitimization, because people are not going to have a choice when it comes to disclosure, because they can't lie about what they are selling to the customer. These are the good people, the high-end jewelers who try to control the supply chain, test their diamonds to differentiate themselves in the jewelry. That's going to happen. But the regular guys aren't going to be able to do all of that.

Prices for normal, non-verified diamonds will fall to the price of synthetics. Yeah, diamond prices for melee can go down by 30% everybody. Don't be surprised. Because, after all, what's the benefit of a natural diamond from a synthetic diamond if you can't prove it's a natural diamond? That's just now when synthetic prices are about 30% less. They may be 50% less. But I don't think it's a big catastrophe everybody. So sell them. You're not selling diamonds, everybody here should understand this. What you are selling is the desire of your client, of your customer, for a momentous gift. For a gift that symbolizes something. So I think you have to transcend the product to the idea behind the product, as Stephen Lussier would say, and sell the idea.

But in my view, if you can't legally and honestly confirm that it's a natural diamond, you are going to have to be honest about it and say that this could be a mixed parcel. Okay, I believe the diamond markets are going to be split, separated, and bifurcated, between those that control the authenticity and those that don't. Big firms are going to try to take market share from small firms, by saying, 'I know. I bought these diamonds from Mr. X manufacturer and we

have the Forever mark and this mark and that mark.'

Source certification is something we are working on to keep higher prices for those products. But, ultimately, the question is going to be what are you going to sell in your store? Are you going to meet your price points? Are you going to make your customers happy or not? So if you can't differentiate at a reasonable cost, you won't differentiate. And so I think that the regular mined diamonds in the cheaper categories are under, significant threat if they cannot be differentiated properly.

Now there are solutions; technology for. So technology is not cheap enough for me to go out there and test every one of these five pointers. Can't do it, too many diamonds. But if I really want to get somebody, I can go to his store, I can take his jewelry, I can break it apart. I can then see what he's really got in there by just testing 30 diamonds or something. And then I can sue him a nice class action lawsuit. I love that. So there's enough technology to stop people from lying, but not enough technology to make sure that everybody can run their business without lying. Got this? It's very sneaky technology, how G-d has set this up for us.

So you've got a scenario where you have statistical sampling. Now we at Rapaport are going to work on a model for statistical sampling, hopefully within a month, and we're going to say, we believe that this is a standard for how you can statistically sample diamonds and have a reasonable assurance as to what you are doing. And statistical sampling might be one of the solutions here. But, still in all, you have to be very careful. You might be able to look at 100 carats, test five, do it reasonably, do it the way the government test bullets for their army and say 'I did what I had to do. I have every reason to believe that these diamonds are non-synthetic because I did some sampling.' And that might be a way to do things.

Now, I believe that if companies don't give the disclosure on the diamonds, then we should do the disclosure in the companies. That company is selling diamonds without exposure. Name them, shame them, blame them, turn them into the dirt they are. Push them into the gutter. And that's something that we believe in and we're putting out a notice at RapNet. We have about, I guess, 13,000 of the top diamond people in the world trading at RapNet all the time and we're going to put up a notice, making everybody aware and when we see someone doing this, we're going to name them. We're going to publish the name, run it up

the flag pole, let everybody salute them.

Synthetics compete with natural to create better profit for everyone, except miners, and this is a very sexy point. Remember the first graphs I showed you where the miners are squeezing the market? Well, guess what? Do you think that synthetics are such a bad thing? No, because if they squeeze too hard, people will go to synthetics. Competition is the key. People need competition, so if this is legitimate competition to the mining companies, then the mining companies will say, 'oh, oh, oh, we can't push so hard. Jewelers are going to make profits and not on the diamonds. They're going to make profits on synthetics and therefore we can no longer squeeze them so hard.'

So I'm looking at things out of the box. I am not afraid of synthetics. I think that they can be very good in the end, because they push back against the mining companies. So synthetics are good for the diamond trade. I know, I'm not supposed to say that, but they are. Honesty becomes valuable and detectable. You don't have to be honest about blood diamonds. But now we can catch you. So you have to be honest. And it's detectable, I can see if you're selling this just by sampling your goods. Competition forces money to come to rational prices and do generic marketing.

Hey, Mr. De Beers, Mr. BHP -- wait a minute, BHP is out of the game. Mr. Rio Tinto, you want to sell your stuff that came out of the ground over there? You better start marketing or the synthetic people are going to eat your breakfast and lunch, because they're cheaper and the jewelers aren't going to give a hoot.

You think a guy who wants to buy his wife something for her birthday is going to kill himself with synthetics? Do people shoot themselves over cultured pearls? Does anyone not buy an emerald just because it's an oiled emerald? I don't know, I'm just predicting the future here.

So this game is very good because I think synthetics should scare the hell out of the mining companies and they should get back into the business of selling their diamonds. They are taking all the money anyway. They're gauging us like you wouldn't believe. Let them at least put some money into marketing. Synthetic forces the trade to take responsibility for what they buy and sell and that is one of the biggest messages I can tell you, everybody here,

whatever you are doing, you have to be responsible for what you buy and sell. You cannot say, 'I didn't know.' You cannot say 'it's not my problem.' You are responsible ethically, morally and financially for what you buy and sell.

We're coming up to the end now. So, back to this king. I'm going to give you a little bit of a Talmudic analysis of King Charles I of England from 1649. On the night before his execution, King Charles wanted to communicate the secret of diamonds, because in those days it was a secret, believe it or not. So what did he say? 'With my own power and majesty they wound.' Don't forget, his head was going to be chopped off the next morning. In the king's name, the king itself uncrowned, 'so doth the dust destroy the diamond.'

This was his way of communicating to his son what the secret of the diamond was. Let's read it. 'With my own power and majesty they wound, only a diamond can cut a diamond. Only with a king can you kill a king. Only with a king's power, can you wound the king.' The diamond trade, by being dishonest can destroy the majesty of the diamond. We, no one else can kill those diamonds like we can. If we lie, if we cheat, if we sell synthetics and we don't disclose it, we will kill the majesty of diamonds. Not because there is anything wrong with synthetics, but because we're a bunch of damn liars. No lie. In the king's name, the king itself uncrowned, I love this. What we call synthetics diamonds, right? The marking of the synthetic diamonds and natural diamonds right, the king's name, in the name of diamonds we sell diamonds, but we don't tell you that they're synthetics. Okay, there it is in the year 1649. So doth the dust destroy the diamonds. Now, with dust, King Charles is referring to his enemies. Small people compared to him, inconsequential people, but yet they destroyed him. But there's more to learn about diamonds than what King Charles had to say. Diamonds are as brittle as they are hard. It means if you work well with the diamond, there's unbelievable stuff you can do with diamonds in jewelry.

But they're brittle. Do something wrong with them and they shatter and they crack. It's easy to damage if you don't handle them right. And diamonds have a directional grain. By the way, I got this quote from (inaudible). (Inaudible), everybody should read him he's great, unbelievable, wonderful history of diamonds. So diamonds have a directional grain. I was a cleaver, that's how I know this as well, but if you take the diamond at the right way, it's

beautiful. It's smooth, it splits like a beautiful piece of wood with the seam, but if you take them the wrong way, you break them.

The only way to polish a diamond is with another diamond, but think about it, you're polishing it. So how will you take that diamond, the direction? I am saying the direction is values, honesty and ethicalness and straightness. Diamond dust -- you might think that diamond dust is small things and that small people are not important; they're inconsequential. But in fact, the only way to polish diamonds and diamond markets is with those small people.

Those big companies -- look at what happened to De Beers. They're just another mining company, if that. Who understands diamonds anymore over there? Who knows -- you pick up a diamond, you give it to them, they won't be able to tell the difference. They become another company.

But we, we the small people, we are the heart and soul of this business. Individuals and small companies with expertise, with passion and with soul, that's the heart of the diamond trade. They make it possible for diamonds to carry their powerful emotional and symbolic message. Big companies can't really sell that kind of intimate emotion that happens between a man and a woman when he gives her a diamond gift. If you're in retail, you understand that.

The idea that the future of the diamond trade will move toward large firms that vertically integrate is false. Large companies don't have a soul. They are soulless, they have no memory, they have no feeling, they have no emotion. They don't really care about diamonds. They'll sell toilet paper as fast as they'll sell diamonds. They just want to make profits and they want to have diamonds and they want to have balance sheets.

We, the smaller people who polish that diamond -- you can't polish the diamond with another big diamond. You know that little dust that gets in there in the wheel and then grinds it up and gives it that sheen and that polish? It's the small people that make this industry work.

So vertical integration is false. The future of Gem-A and for the diamond industry are well aligned. That's because you're small people.

The diamond trade isn't about diamonds; it's about people. Some people say, 'oh you make your money sorting diamonds, right?' There's money in the tweezers -- and there's truth to that. But let me tell you, the real diamond business is sorting people, not just diamonds --

sorting the people. So the diamond trade is good people, knowledgeable people, people with careers who care about the long-term integrity of the diamond trade. That's what we need. This is what makes the diamond industry. Mining companies will come and go; diamond people will be around for these hundreds of years that we've been talking about.

In the end, after all is said and done, our diamonds are only -- and they really are -- as good as we are. Thank you, Gem-A, for 100 years of the best people.

(Applause)

Audience Member: You said that companies that do not disclose should be named, shamed and blamed. Do you think that should be extended to companies that bribe diamond rings in diamond laboratories?

Mr. Martin Rapaport: 100%. I mean look, we're a community and if somebody is poisoning our well, we've got to watch those people. We've got to keep them out of the wells. We've got to keep them away from the wells. So I think that all these issues of unethical behavior have to be enforced. Look at this room that we're in. Why did they make a Goldsmiths' Hall? I'd bet you that going back hundreds of years, because people were trying to pass off stuff that wasn't gold as gold. So they had to have a community of people that enforced the ethics and the standards of that goldsmiths' union in England or Great Britain, however many hundreds of years ago.

So, the problem is that some of these organizations, with all due respect to CIBJO and the World Federation, that the people who are evil are part of the boards of directors of these organizations. They can't change. So it's every man for himself, to a certain degree, when it comes to morality and ethics.

I believe there should be this naming and. I believe that we have to really disclose things.

Audience Member: Who's going to prison with this grading scam?

Mr. Martin Rapaport: Grading scandal is minor compared to people getting killed and raped in Zimbabwe. No one's going to prison there.

Prison? I don't know about prison in grading scandals. See, you relate to grading scandals -- how about rape? How about murder? How about people in helicopters machine-gunning people to death? I mean, with all due respect to the laboratory business and a few rich people getting screwed on a few diamonds, here you've got 230 dead people. And we don't care about that, do we?

Audience Member: But evil is evil.

Mr. Martin Rapaport: Right, exactly. I think once we start to transcend that and relate to that, and take responsibility for that, then things work out. But I'm telling you, G-d has a sense of humor. He put these synthetic diamonds out there and He says, 'look how everybody's jumping around now!'

Moderator: I think that's really great -- G-d has a sense of humor, everybody. Martin, thank you very much.

Mr. Martin Rapaport: Thank you.