



NEWS

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Russia's diamond polishing industry looks forward to renewed growth

Antwerp , Belgium - March 1, 2012: Russia's diamond manufacturing industry is slowly but surely emerging from the severe crisis it experienced since 2009, when polished diamond production fell to an unprecedented low of US\$350 million. However, according to a report submitted by the Russian Diamond Manufacturers Association (RDMA) to the International Diamond Manufacturers Association (IDMA), the Russian Federation's diamond industry's production is on the rise, and it is expected that the supply of rough to the industry will increase significantly soon after the presidential elections later this month, leading to double digit growth in the output of polished goods.

The year 2007 was one of the Russian Federation's most productive years, as polished diamond production reached about US\$1.35 billion, of which 98 percent was exported to Belgium, Israel, Southeast Asia, USA and elsewhere.

However, in 2008, a long-term crisis began for the Russian Federation's diamond cutters and polishers. It started off with a truly huge problem that was created by the government: the introduction of value added tax (VAT) on the trading turnover of polished diamonds on the home market. Due to the complicated taxation rules and the [cumbersome and ineffective] reimbursement policies of VAT payments after exports, this, in all practical terms, led to an increase in the cost of diamond production in the Russian Federation of some four (4) percent. With profits reduced to razor thin margins, this constituted a major blow to the viability of the Russian diamond polishing industry.

And then, in the autumn of 2008, the world-wide economic crisis hit, which influenced the global as well as the diamond industry in the Russian Federation. Consequently, the Russian Federation's polished diamond production fell to US\$900 million in 2008 and as mentioned above, in 2009, dropped to an unprecedented low of US\$350 million.

continued

About IDMA

IDMA was founded and convened for the first time in 1946, in Antwerp. It is committed to fostering and promoting the highest ideals of honesty and best practice principles throughout the global diamond industry, as well as full compliance with all relevant national and international laws. The organization has developed and adopted a Code of Conduct, which is binding on all 15 member associations. IDMA also works to encourage fair and honorable practices and decent working conditions for industry employees; and to preserve, protect and promote consumer trust and confidence in diamonds. It encourages and supports social responsibility by the industry in respect to all citizens of the world. The Association has played an active role in establishing the Kimberly Process Certification Scheme and is a co-founder of the World Diamond Council.



In the mean time, diamond mining in the Russian Federation continues, as it is supported by the government. But the consequences of the introduction of VAT on the turnover of rough diamonds, as well as the results of global economic turndown continue to have a significantly negative influence upon the state of polished diamond production in the Russian Federation.

Because of the sharp fall in production, the financing of the production pipeline has become very difficult and while much of the global economic crisis seems to have passed over the industry, in the Russian Federation the lack of financing remains a chief obstacle toward renewed growth.

In view of the above developments in the Russian diamond manufacturing industry during the years 2008-2009, diamond miner Alrosa signed long-term agreements to supply rough diamond for exports, and this consequently led to a lack of rough diamonds for polishing in the Russian Federation in 2010, this in spite of the fact that the world diamond business had overcome the global economic crisis. Therefore, the production of US\$650 million of polished was lower than the industry could have possibly handled.

In 2011, the Russian Federation's polished production rose to US\$850 million, this in spite of the persisting problems of the diamond manufacturing industry.

The lack of supply of rough diamonds for processing within the Russian Federation as well as the VAT issue continue to impact Russia's polished potential output negatively and raises the bar for potential partners in the world markets.

The above mentioned issues have been brought up frequently by the Russian Diamond Manufacturers Association in their talks with the Ministry of Finance, which supervises the diamond industry. However, there are good reasons to believe that after Presidential elections and upon the forming of a new government in the Russian Federation, the stated problems will be solved.

In closing, Russia's leading diamond cutting factory, PC Kristall, has begun the preparations for a great event – the celebration of its 50th anniversary in 2013. IDMA members are advised to keep their ears to the ground as festivities are expected to be border crossing.

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