IDMA
INTERNATIONAL DIAMOND MANUFACTURERS ASSOCIATION
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Moti Ganz

Opening address

IDMA Meeting March 29 – 30, 2009, Antwerp

Dear Colleagues,

Lately, we have heard a lot of talk about the diamond supply pipeline.

On the one hand, we have seen diamond producers reducing production in a number of major and even close others altogether. On the other hand, consumer statistics indicate that while there has been a significant reduction in diamond jewelry sales, the downturn has not been as dramatic as expected.

How are we to analyze and understand these seemingly conflicting facts?

What I am about to say may sound radical, but I suggest that we try and do not loose focus of what our genuine role is - or should be - in the diamond supply pipeline.

Let's try and disengage ourselves - diamond manufacturers – from the phenomena, from the problems of the other parties and players - the consumers, the retailers, and, yes, even the rough diamond producers.

And here it is – I say that their problems should no longer immediately become our problems.

Let us, here and today, understand and clearly define our own problems!

During the first few months of 2009, demand of polished has dropped between 35 and 40 percent compared to last year. And last year was not a great year either, you will recall. But 35-40 percent still means that we did 60 to 65 percent business. True, mug less business, but my point is we're still IN business.

However, these numbers force us to find new ways to cope with this significant reduction in our diamond manufacturing and diamond business activities.

Of course, our Indian colleagues have been dealt the most sever blows. According to figures that have reached us – and Vasant Mehta will no doubt fill us in the exact data – some 400,000 diamond industry workers have been laid off. Of course, these figures may not be altogether correct, as some manufacturers may have simply extended workers' leave after Diwali, while others have shortened the work week. Still it is a very serious set back for the Indian diamond manufacturing base, an unprecedented one.

Manufacturing

Currently, most manufacturers are holding stocks and are trying to sell these, while reviewing their manufacturing capacities and capability. The ensuing question is; how long can we hold out, without letting our work force go?

After all, we all know that once we let a worker go – we do not know if he or she will come back. Greener pastures are beckoning once a worker leaves the industry. At the same time, we al know how much we invest in training and honing the skills of cutters and polishers, giving them the know how to do the job we need them to do. And then what will we do when business bounces back? Because while the crisis is still there, demand will bounce back, not as fast as it dropped, but it will come back, and I believe that to be faster than most. When that happens, we cannot be caught without a viable workforce!

Here we have something in common with the rough diamond producers. How can we assure that we will have enough goods available, the capacity to produce them on time when there is a resurgence in demand?

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This presents us with another important question; when – not if – demand for polished resurges, will we then fall back into the same, old behavior and pattern of chasing up rough at any price, and let ourselves be fooled once again by speculation? Or – and it seems to me that this is one of the important issues we need to discuss at this meeting, are we finally to chose another route and policy?

Financing

The current credit crunch affects the entire economy, and therefore also our business. I think we're only 1/3 into the downturn and that the upturn is not anywhere close. It will take time.

Where do we, the diamond manufacturers, find ourselves?

First, over time we have paid a heavy price due to the lack of responsibility of the jewelry retailers, in particular the retail chains in the United States. There, retail chains are in trouble because of their business models. On the one hand, they want to reduce their diamond buying, but on the other hand they have tied themselves into long term deals with leases on prime locations, in shopping malls and main street locations. In fact, they cannot get out of these long term commitments unless they declare bankruptcy and put them selves under the protection of Chapter 11. This means that nobody can touch them, that they can reorganize as they see fit.

And we - diamond manufacturers who have also become dealers and distributors – are among those who are defined as "unsecured clients" and we can only wait and see how many cents we can expect to be paid to the dollar. It has been our own doing – we've given them the goods, offered them long credit terms, most often without any redeemable collateral.

As a result:

1. We're losing money;
2. We've put ourselves in a weak and disadvantageous position opposite the bank;
3. We've nailed ourselves down in supply agreements and credit terms;
4. We have not tools to assess or even check what our retail clients are going to do.

So, what do we learn of all this?

Rough diamond producers have a 'golden' rule: rough in return for cash only.

I suggest we take a hard look at that business model and contemplate how we can do the same.

Why? Because we're living in a new world. And maybe, just maybe, we need to decide that enough is enough?

But we can only break the existing mold, if we act together, work in unison.

Here's a question. Why can't the retailers shoulder their own financing instead of us?

Why can retailers not buy and pay for what they buy? Let them get their own financing from their own bank instead of from our bank?

Here is another idea. Maybe we should look at the polished dealer for a solution – yes, that same polished dealer who so many in the diamond supply pipe line have written off and declared irrelevant – maybe the polished dealer should become the one who extends credit to the market?!

The model would like this: we sell to the polished dealers – for cash. The polished dealers, who are the closest to the market as they live and breathe the polished market, would provide credit to the retailers. Polished dealers know the market so well that they will only buy from us when they know that the goods bought are needed in the jewelry market and will move through the pipeline at an acceptable rate and pace.

I have not invented this model – it already exists among the rough dealers and has proven to work very well.

We, the diamond manufacturers, simply cannot any longer bear the burden of the market, i.e. about 80 percent of the financing, of the credit that is extended in the diamond pipeline. You all know the situation; we buy the rough, pay cash, and move on to the manufacturing stage.

Then, since we employ a significant labor source, we add more to our own burden - i.e. create even more costs factors and risk – that are not only financial but also social. And lets not forget that we carry responsibility for the livelihood of millions of people, many of the in low wage countries. That puts the issue of corporate and social responsibility right into our laps!

And then, three, four months later, we come to the market with polished only to find that the price model along which we justified buying rough and obtaining credit, has become irrelevant because prices have dropped….

Back to our Core Business

Looking at and talking about all the above – I suggest we go back and do what we know how to do best; manufacturing diamonds. Those of us who insist on also playing the role of dealer must realize the risk involved and should only sell if they are absolutely convinced that the goods will move through pipeline.

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I know I am expressing an opinion that goes directly against the trend that has been pushed to hard, also by the producers – that of vertical integration. Obviously, this model has not worded very well, and it obviously needs to be reviewed.

I'd like to go back to something I have said in February of last year. The banks will begin treating us differently, yes more favorably, when they'll see that we have changed our business model.

Of course, with that new model, they will lose some business, also some profit - 1020 percent – but it is as a banker told me some time ago; "the problem is in the tail." In other words, the banker knows that you, the manufacturer, will ultimately pay his debts to the bank. But you, the manufacturer, on the other hand, never knows if the retailer will pay his debts to you!

So let's summarize this quickly:

1. This is the biggest crisis since the 19030s, triggered by what is now known as the implosion of the asset bubble (sub- prime) and the resulting global credit crunch.

2. In all markets, the finial models and credit terms are changing – so will ours.

3. We will need to prove that we have a viable, sustainable business.

4. We need a new diamond manufacturing business model.

5. We need to disengage ourselves from the financial risk that we have been carrying on behalf of the downstream (retailers) - and upstream (rough diamond producers) supply pipeline.

6. It will be an uphill battle in times where the "vertical integrated" business model has been forced upon many of us. I do not believe in it.

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7. We need to make our money in our core business – do hat we know to do best.

And here is the million dollar question - are we, will e take control of the industry's leadership. I think we can and we should. It is we who turn rough into the polished diamonds. I yet have to see an engagement ring o the market set with a piece of rough…..

We now have an opportunity to protect ourselves, our business, our work force, and we owe it to our selves to do so.

If anyone thought that our organization has no relevance, let him think again. It is all okay when everybody makes money, but it in difficult times like these that we are required that we are worth our salt – or better – our diamonds.

Thank you