3 TOP CHALLENGES FACED BY THE GEMS & JEWELLERY INDUSTRY

– IN GA’S PERSPECTIVE

April 1 is the beginning of a new accounting year in India, and as we stand here at this junction, introspecting about the milestones we achieved in the last year, those we didn’t, and the budgets that we need to allocate to different priorities, we at GemAtlas thought it was just the right time to remind you about what, we believe, some of the top priorities are for the industry at large.

We brainstormed with some industry professionals over a few casual cups o’chai, went through all the news and events of the past year, and came up with the top 3 challenges that we feel the gems and jewellery industry is facing, and need to be addressed in order to ensure a brighter future for us all. With common consensus, the top challenges are: 1) Overcoming Negative Perceptions about the Jewellery Industry with Regard to Ethics; 2) A Need for Financial Transparency; and 3) A Need for Generic Promotion of Diamonds & Jewellery. The idea is to begin a dialogue about how we can come together to address these challenges. We invite all our members and readers to send us their thoughts about how we can together move towards the changes that our industry is crying out for.

1) Overcoming Negative Perceptions about the Jewellery Industry with Regard to Ethics: There are many issues that fall within the purview of ethics in the jewellery industry, however, we have addressed what we feel are the top two. These issues being: (1) The misrepresentation of man-made diamonds as natural mined diamonds, and (2) The Overall Authenticity of Jewellery Certification & Its Value, Therefore.

a) The misrepresentation of man-made diamonds as natural mined diamonds: It is indeed a great feat that high-quality CVD (Chemical Vapour Deposition) and HPHT (High Pressure High Temperature) stones are being produced in laboratories, and that too so perfectly that it takes very special equipment to detect that these stones are lab-grown. Unfortunately, there are quite a few instances we hear about, of lab-grown diamonds being surreptitiously mixed into parcels of natural mined diamonds. It is indeed a sad fact that today not only are consumers being caught unaware with lab-grown diamonds, but, jewellery manufacturers and retailers are also being similarly cheated.

There are recent news reports that GIA has stated “there has clearly been an increase” in cases of undisclosed synthetic diamonds being detected by the lab. Tom Moses of GIA has been quoted as telling JCK, “I can’t tell you how much the increase has been, but we have seen more in smaller sizes and in colored diamonds. This makes sense; they are being made more by more people. It’s only natural we would see an increase”. Meanwhile, the Surat Diamond Association, which represents the trade in Surat, India, has also confirmed recent press reports that undisclosed man-made diamonds have been spotted there.

It is time for the industry to realise that a man-made diamond needs to be sold as the wonderful product that it is in its own right, and should be accorded its own separate market positioning. Drawing a parallel with pearls, the early manufacturing of the cultured pearl brought with it many insecurities about the fate of the natural pearl, but all that quickly settled with knowledge about them being distinguishable from
each other, and each enjoyed its own unique place in the jewellery space. In fact, the “exclusivity” of natural pearls has only increased with time.

Similarly, mined diamonds, as a natural resource, will always have a limited supply, and so, will also always be dearer than man-made diamonds. Such surreptitious practices, if they continue, will have huge consequences on the consumers’ faith in diamonds and diamond jewellery as a whole.

b) The Overall Authenticity of Jewellery Certification & Its Value, Therefore: There have been reports abound in the media of at least one gemstone certification laboratory “over-grading” diamonds. There have also been insinuations that laboratories might sometimes cave in to demands from jewellery retailers, loose diamond suppliers and jewellery manufacturers to get a somewhat more desirable grade for diamonds or other gemstones. In one high-profile case, a laboratory was recently accused of using another leading grading laboratory’s terminology to grade diamonds and yet consistently issuing higher grades. The laboratory in question has been defending itself saying that it has never intended to draw a parallel and follows its own separate standards.

As jewellery retailers and stakeholder down the pipeline, it is our responsibility to make sure that the certificates we provide buyers are not misleading in any way. There is a dangerously escalating feeling of mistrust among consumers about certification, and whether stones that are graded as a certain colour or clarity are indeed as specified. Players from the industry need to abstain from trying to influence the outcomes of certificates from labs and renew the consumers’ faith in certification. If we decide to give certificates, we should make sure that they are 100% authentic.

2) A Need for Financial Transparency: Over the last few years, there have been a lot of discussions between banks and financial institutions and the gems and jewellery industry in India about issues of mistrust that make these institutions hesitate to lend money to the sector. This makes Venture Capitalists and Foreign Investors wary of investing in the industry too.

Some concerns banks have expressed are: Diversion of borrowed funds into financial, real estate and other markets; An "intermingling" between gold, diamond and jewellery verticals and even businesses outside the sector which has led to interest arbitrage and "confusion" in working capital positions; Possible inaccuracy in the trade data put out.

At the World Diamond Conference in December 2014, GJEPC announced that in response to the requirements for transparency and in order to enable financial institutions as well as the industry at large to be able to have access to information about clients, it will be launching its MYKYCBANK model for a “Know Your Customer” interface. It is important for all of us to comply with such initiatives.

To quote Erik A. Jens, CEO, ABN Amro, who spoke at the World Diamond Conference, “The sum of profitability and transparency is equal to 'bankability' for us”.
Kishore Lall, Global Head, Gems and Jewellery, Standard Chartered Bank commented, “Transparency is essential”, adding, “Banks must ensure that transaction are bona fide and real transactions”. He said that bankers were in the risk-taking business and can accept that things do not turn out as expected or don’t go well for a particular company or business. “What is not acceptable is the transaction was not bona fide from the outset”, he stated. “That creates an emotional backlash for the bank and has a negative impact on the sector as a whole”.

Each one of us has a responsibility towards contributing to the perceived credit-worthiness of the industry at large by making sure we do not: Default on payments; Borrow under business pretexts and diverge into financial and other markets; Use funds borrowed for one business vertical for other verticals, etc. The money-flow in the industry should be made clearer. If we are transparent in all financial dealings, it will be easier for the whole industry to attract investment capital from banks, venture capitalists and even foreign investors.

3) A Need for Generic Promotion of Diamonds & Jewellery: Another huge challenge for the gems and jewellery industry is the fact that it is losing market-share to other luxury products like smart-phones, designer handbags, clothes and the travel sector. For decades, De Beers almost single-handedly engaged in global promotional activities for diamonds as a product. But, as the company’s supply share began to decline, it started turning its marketing-spend towards its own brand. The lack of promotion of diamonds as a product has led to a declining interest among consumers.

If we analyse how the gold and platinum sectors have worked towards building their market-value, it is by forming special promotional bodies. In the case of gold, the World Gold Council (WGC) is the market development organisation for the whole industry. WGC works with organisations in the entire value-chain like miners, jewellery manufacturers and retailers, as well as governments and other industry bodies, and keeps the spotlight on gold with various promotional activities. It keeps consumers and the entire industry educated and up-to-date on information. Similarly, Platinum Guild International (PGI) is the promotional body for platinum. The body provides education and training to retail staff about platinum and its products, and markets platinum as a category worldwide. Both these bodies have done an excellent job of bringing together organisations connected with their respective industry, to work towards their common cause of “generic promotion”.

The World Diamond Mark® Foundation is a not-for-profit organisation set up by the World Federation of Diamond Bourses to promote consumer desirability and confidence in diamonds. However, having been established in 2012, it is relatively young.

It has only this month been reported that a number of diamond producers met in London to discuss the need for a producer association similar to other commodity-based organisations. According to Bloomberg, Rio Tinto said in a statement, "The idea of the body is to promote the interests of diamond producers and the diamond sector more generally. We will continue the discussions with industry participants".
So, it seems like some imminent steps will be taken to form an industry association for the promotion of diamonds and jewellery. News agencies have further reported that "the group will have an initial budget of $6 million a year".

Besides just manufacturers, everyone in the pipeline needs to be involved with this body when it comes into being, and contribute all efforts to undertake generic promotion of diamonds and jewellery as a product category. Consumers need to be literally bombarded with messages about how good diamonds and diamond jewellery is.

Perhaps more people need to engage with the WDMF and other similar functionally active body/bodies and their programs; and we probably will see this new body of miners quickly transform things in the near future, but, so far, there is still a strong need for promotional activities for diamonds and jewellery, especially to arouse demand in the younger generations, which is quite lacking.

**What are the solutions to these problems / challenges?**

Well, the solutions can only be stumbled upon by asking a lot of questions, contemplating on them, and discussing them with each other. ‘How should we go about keeping the supply-chain of man-made diamonds and natural mined diamonds separate?; How do we go about preventing miscreants from tarnishing the image of the diamond industry and jeopardising its future?; How do we go about making sure grading laboratories never entertain requests to give even slightly higher grades for stones even from their most lucrative clients?; How do we make sure retailers and manufacturers stop making such requests?; How do we make it more difficult for companies to stop working around financial systems?; How can each one of us in the value-chain get involved with generic marketing of diamonds and jewellery as a product category, pitching it against other luxury commodities?; How do we bring about absorption of compliance?’ – These are only a few of the questions. The questions may be endless, but we must never stop asking them, because, in asking them and in thinking and brainstorming rest the solutions.

Our industry often tends to blame existing laws for many of the issues it faces. Of course there may be a lot of laws that we feel require to be amended. And, how we can lobby for these changes is definitely also something that we need to discuss, however, what we should do is start working within the existing laws to constructively take on the challenges in both the Indian and global contexts. Let’s really get thinking, and more importantly – Let’s get DOING!