ADVENTURE OR SUCCESSFUL STORIES?

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Abstract

The research implied published information that was used to find out stories and interesting case studies about the diamond industry during crises and not only, in different countries and with powerful investors.Risky or not, diamonds had been traded along centuries when the marketing and sales strategies had to be reconsidered and especially now, in the digital age when there is a new generation of consumers. The diamond industry has adapted to values, behaviours and ways of life. Still they will remain a permanent store of value, their eternal quality making them perfect investments regardless the century or the crises we live in.

Keywords*: market risk, diamond industry, luxury jewellary market, behavior of the consumers*

JEL classification*: M29*

A symbol of power and wealth, alluring beauty, a permanent store of value, the diamonds have been exerting fascination on people along the centuries. The trading of these gemstones has always been a multi billiondollar business, fascinating, adventurous, successful…

We consider the diamond industry as having long been a global trade, with its distinctly different activities – we refer to mining, trading, manufacturing and jewelry making. Those who got interest in them set up in an adventure to become rich and to place themselves as money makers even now in a high- tech world.

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Diamonds had the stuff of legends, their stories turned into blood ones, they became perfect tools for money laundering, tax evasion, drug-running and weapon-traffic.

From an economic point of view, they are thought to provide a hedge against inflation and are considered crisis resistant. Why? Diamonds can offer long term profitability through an increasing demand throughout the world and the decreasing supply that is due to more and more limited natural resources. There will be a decline as far as more of the existing mines may become less profitable or others may change their extraction processes in order to avoid the costs involved in producing diamonds of low quality. The imbalances on the diamond market entail risks for both financial stability and price stability**.** (2015)

When trading them we are attentive because there are risks and vulnerabilities that must be taken into account**:** They can be higher-risk products, as they are easily shipped and concealed, can carry enormous value, provide anonymity when being in transactions and are really difficult to trace. Liquidity is seen as very less and banks as well as financial institutions don't accept diamonds as mortgage. Whereas gold is always being preferred for mortgage. Diamonds cannot be changed into any other form, whereas gold can be melted and made into any ornaments. Their trade becomes vulnerable to different laundering techniques (Fatf report 2016)

There were overseas investors who had dominated the industry, powerful elites, army, and security forces to operate without scrutiny and exploit the diamonds. Let us take Zimbabwe which has been passing through an economic crisis and the management was a poor one within the area of such precious natural resource. It is imperative to carry out due diligence, both for investors and those trading in such natural resources.

If we take Zimbabwe's diamond industry, we must be aware that this is focussed on an area in the east of the country known as Marange. Recent developments in this sector have clearly highlighted the potential risks facing the Chinese investors in the country. The website of the Chinese company Anhui Foreign Economic Construction (Group) Co, Ltd (AFECC) still displays claims about the investment in the area Marange through two companies; it has a 50% stake in: Anjin and Jinan. Last year, after less than half a decade, the AFECC's interests in the industry had a problem. The government made efforts to merge the diamond sector into a single company, and the company, even if resistant to this, on February 2016 saw the government giving orders to all Marange companies—including Anjin and Jinan—to cease work and leave the diamond fields. Now, Zimbabwean President Emmerson Mnangagwa put Zimbabwean interest at the heart of mining diamonds and accepted the selection of companies from Russia and China, namely Russian Alrosa and China's Anjin (Dzirutwe 2019)

We know that the economic literature outlined the fact that civil wars are motivated by merchantile objective, opportunities of some economic advantages. The political context and the historical one of the countries are to be taken into account too. Within this context diamonds are seen differently. Competition for regions with diamonds became tough and this entailed conflicts in such areas. Usually natural resources stimulate economic growth but in some cases the outcome is a negative one. And it is the example of Subsaharian countries where the mining and trade of the gemstones brought about deadly conflicts. We have misery, violence, (Sierra Leone, Liberia, Ivory Coast, Angola, Democratic Republic of Congo) the very opposite of what was the lure of these precious stones (Vojcik,2016)

The secondary diamonds easily to be mined can be correlated with the beginning of war in Sierra Leone while the primary ones need more steady and powerful state systems. Nevertheless, the mining industry in this country is based both on primary diamonds as well as secondary ones. They had an essential role in the outburst of the civil war and they offered the RUF the source of huge income for the war. Revenues from blood diamonds have served to fund terrorism and the RUF got control over the mines, exchanging diamonds for weapons that were imported from Europe, therefore, arms smuggling was on its peak. (Miesen 2012**,**)

They had an essential role offering the RUF the source of making money for the war. The illegal mining of diamonds was backed by both parts both the RUF and the government. RUF had a profit of 200 mil dollars during 1991-1999. The story goes like this: the diamonds were given to Charles Taylor in exchange for arms and ammunition. The ownership on diamond mines and the mining licence were given to leading families and to the regime officials and this entailed the increase of social inequality. The government in Sierra Leone was unable to collect the taxes in a rigorous manner and the low purchasing price encouraged the illegal traffic.

More than half of the global diamond production is being divided between two companies: the prestigious and well- known DE Beers Group that is rigid and difficult on the market, and the gigant Alrosa the Russion company that drew the attention of the international bodies in 2013. De Beers company has gradually lost its leading role: in 1980 it controlled 80% of the market, in

2005 this percentage diminished to 43%. This is due to the failure of accessing the production in Australia, Canada and Russia. Since 2013 the Group De Beers has been extracting diamonds from the mines in Botswana, South Africa, Namibia, Canada and Angola, that is 24% of the global production of diamonds. Alrosa got on the stock market in 2013 and overstepped De Beers Group concerning the quantity but not the quality.

The moment Cecil Rhodes funded De Beers during the XIXth century the company was very powerful on the diamonds market and maintained their price at a high level by purchasing what was in excess. It has lasted for years but it became unsustainable as competition came from the rivals and gradually the demand for other luxury products replaced the consumers' appetite for gemstones. De Beers have changed their business from monolpoly into a commercial venture and had to face all the pressure of the competive markets. The company was very powerful as they determined who could buy uncut gemstones, in what quantities, which cutting centers to be used.

De Beers changed the strategy and started to sell raw diamonds within 10 auctions that were held annually but had remained with diamonds valuing more than 4 billion dollars. Lately the EU forbade the monopoly activities and De Beers company is controlling but 40% of the diamond market as compared to 80% that it owned some years ago. Russia was forced to stop selling their products through De Beers company. Meanwhile, Botswana was taking larger shares of the profits through the major mines. The result? New strategies had to be enforced in order to face the economic crisis.

De Beers company aims at earning profits as a real and permanent contribution to the well being of the people, deliver government/producer relationship sustainability (Campbell 2005)

The diamonds market has been a real problem since the burst of the financial crisis in 2008. Prices got down during 2008- 2009 and an amazing rebound came during 2010-2011 when they reached the peak levels. The markets improved in USA, China and India.

The global financial crisis had a major impact on diamonds that went through a decline and among its negative outcomes we mention:

- the reduction of production,
- the significant diminishing of sales,
- great price fluctuations,
- redundancies.

The main consequence for the crisis was the ceasing of diamond production. Mines in Botswana, Canada, Namibia were closed, the output being 10% as compared to that produced in the same period of the previous year.

Still some of the investors had a safe alternative with diamonds because they had already been in this business for decades.

While the production is starting again slowly some companies such as Harry Winston Diamond Corporation decided to call off the winter output of Diavik Diamond mine in Canada. The same happened to other companies. Rio Tinto closed the mine Argyle in Autralia in 2009 and the production decreased with 90%.

In Africa, in Botswana, the diamond industry has been flourishing: during a single year the Jwaneng Mine alone produced over 10.2 Million carats of diamond in 2017. There are problems no doubt, but still Botswana's mines are still producing awe-inspiring diamonds. Botswana invested diamond money to foster a working democracy with a strong economy that has changed the country bringing innovation and rising the level of living. (Cumback,2017)

Top companies have taken measures to maintain or improve profit in 2012 (Janowski 2017). Alrosa company increased the number of contracts on long terms in order to get a better stability for the sales. The company boasts with a dynamic nature of its business as the managers followed the stategy of liquidity risk management that maintained enough cash funds and preserved financial flexibility. Inflation risks were estimated as average.

But the financial crisis was not the only one that entailed the instability of the market.

The synthetic diamonds have been developing in a rapid way lately. We are confronting with the technical equal but cheaper rivals. The first synthetic diamonds were created in the 1950s and they were for industrial uses (companies like General Electric). They did not approach gem quality until the 1970s and 1980s, when the colored diamonds appeared.

The synthetic diamonds represent a rather small segment of the market and even so, they have become widespread and more and more difficult to detect. They have an interesting industrial and scientific story. They are produced through the HPHT method (pression and high temperature) and the colours vary from yellow to blue but they can also be colourless. Otherc olours can be produced through the synthesis by using radiation. There are other companies that offer diamonds through burning wastes. But even if diamonds are man made, they can be rare and expensive too, due to the fact that they are processed through expensive technology. Then, there are machines to test them and they are expensive, but trade buyers might worry that someone could mix small synthetic stones in with real diamonds and that they would go undetected.

Lab-created synthetic diamonds do not have resale value. No jeweler will buy them back.

The future? It depends how we call them: synthetic or cultured gemstones.

De Beers, however, announced that they will offer affordable lab-grown diamonds to the public under synthetic-diamond technology company, Lightbox.- a fashion jewelry label selling low-budget gems with mass-market appeal. a collection of white and candy-colored gems it says are perfect for “lighter” moods and moments With Lightbox, De Beers wanted to unravel the cultural significance of the diamond engagement rin. It has made synthetic diamonds as being totally acceptable products. (Lightbox will transform the lab-grown diamond sector by offering consumers a cheaper lab-grown product they have told us they want but aren’t getting: affordable fashion jewellery that may not be forever, but is perfect for right now,” (Cleaver 2018), chief executive officer of De Beers. It seems that with Lightbox, lab-grown diamonds will have officially entered the mainstream**.** (Kurtz 2018)

Some labs are marketing their diamond products as 'green' or 'eco-friendly', with celebrities such as Leonardo Di Caprio backing lab diamonds, helping them become respectable.

Many unscrupulous dealers will profit more and more, by passing the lab diamonds off as authentic. And indeed, they look perfect. The diamonds produced for for high-tech application have a great potential for long-term growth and profitability. Of course, marketing and the consumer perception will determine the effect of lab-grown diamonds. The consumers may consider synthetic diamonds as fashion jewelry but not luxury goods, in this way limiting the effect on natural diamond demand.

De Beers succeded along the years to turn the diamond into a symbol for eternal love. Their story is a “love story” – a diamond is forever- or better said the love for money. Money that turned them into the biggest mining company, an empire. The perfect slogan conceived by N.W Ayer –actually by Mary Frances Gerety**-** A diamond is forever- was declared the slogan of the XXth century with an unexpected impact: sales for engagement rings increased and in 1968 more than 80% of Americam women had such a ring on their fingers. The campaign became more aggressive because the public had to be made aware through all means. Actors, celebrities advertised the diamonds and sensitive love stories.

Now more than before, we know that resources on our planet are coming to an end in future, therefore De Beers came with a strategy by reducing production so that diamonds mines could have a longer life. The logical consequence of a limited production is the increase of price. This strategy might anticipate the high demand on the Asian market. The company will reduce with 20% the number of clients who bought raw diamonds. A number of 35 traders were eliminated including 10 newcomers. Such reductions will be enforced in Belgium, USA, Israel. Restructuring concerns the focus to be turned on those operations that can stimulate the demand (Seccombe. 2018)

We expect that by 2020 De Beers will produce 32 million carats as mining at the Venetia mine in Limpopo. A $2bn project will extend the mine's life to 2046. In Namibia four mines expect to be closed by 2022. De Beers have launched the world's largest diamond exploration ship to operate off the coast of Namibia because the diamond producer is looking for higher-value gemstones as many of the major onshore deposits have now been consumed. O course that traders want to make profit. Some of Rio Tinto Group's customers did not want to buy cheaper diamonds, while De Beers had to cut down prices and to offer concessions to buyers.

The company Alrosa remains the world leader in the diamond industry by volume produced, with 27% of the global extraction, and it is also ranked as the leading company in the sector in Russia, with 95% of the country's diamond production. De Beers' platform is called Tracr and has been developed in collaboration with various stakeholders in the sector. Alrosa will be joining the project to create a blockchain platform that is dedicated to the global diamond industry. The two world's leading diamond producers are now working on this platform and they aim at providing more guarantees to consumers and industry players about the origin and authenticity of their diamonds. They aim at working with all players in the industry and are concerned for the assurance that registered diamonds are natural ones and they come from conflict-free areas (Cavicchioli 2018).

As far as the diamond industry is being concerned Cecilia Jamasmie, editor at MINING.com considers that there are some trends (Jamasmie 2019):

* Increasing influence of digital technologies. A good example of this trend are the blockchain projects that have been launched that were aiming to help r consumers identify the origin of their diamonds with more confidence.. — De Beers and Alrosa — joined their forces to test a pilot testing the blockchain technology-based platform. Marketing efforts that use digital technology can also deliver superior customer experiences.

* Growing presence of lab-grown diamonds: "Lab-grown diamonds are clearly here to stay," says Olya Linde, partner at Bain & Company and main author of the report.

De Beers have launched the Lightbox. The effects on the demand for natural diamonds and price will depend on the consumers' perceptions and preferences. If the mined- diamond industry can differentiate its stones from lab-grown diamonds, the effect on natural diamond demand by 2030 will be limited to 5% to 10% in value terms. Lab-grown stones are expected to become accessible to a wider consumer audience, potentially increasing demand for diamonds in general

We consider 3 Shifting preferences of younger generations of consumers:

- Young consumers are making industry players rethink their sales and marketing strategies.
- The Millennials spending power
- Generation Z's females spending power is increasing. What is seen as future demand for diamonds will depend largely on the industry's ability to market its jewellery successfully —(Linde 2018)

What might happen in 2019?

- De Beers no longer hold monopoly.
- More and more smaller diamond dealers have entered the market.
- Distribution channels have diversified
- New trading centres have emerged.
- Cutting and polishing have gone to India and China and smaller centers appeared.
- The age of cryptocurrency, of the internet, takes the place of a diamonds trading platform.
- There is the strong demand for diamonds by consumers in the USA, and in India and China.
- It is supposed that India will become fastest growing diamond jewellery market by 2030. (India has already become the world's largest centre for cutting and polishing and will be the dominant rough trading center) (Bowen, 2018). Indian companies account for almost 50% of the Russian rough diamond sales.
- On the other hand, it is estimated that Europe and Japan will remain stable markets for long-term growth of diamond jewellery.

We live the millennium of luxury where the market is extremely competitive. In this world enormous sums are being invested in diamonds. Lev Leviev, the oligarch is the biggest retailer in the world who owns more than 70 stores with diamonds. His deals in Angola and Russia undercut the De Beers giant and made him control the diamond market. Lev was an exclusive buyer of De Beers rough diamonds and is famous for cutting and polishing the precious gems. He dealt directly with diamond producing governments being the first diamond industry first dealer to operate across the value chain

The Millennials and Gen Z are very popular today. Their spending power increased as far as the luxury sector is concerned. Generation Z cannot match Millennials' spending power as they are the would- be consumers of tomorrow. In Japan and in the West, Millennials exceed their parents' wealth but in China opportunities made them optimistic and surpass the previous generation and turned them into powerful consumers. The Z Gen went through the crisis so they became competitive due to a new style in life connected to the digital. This generation found its way into an environment with so much innovation that they came to think globally. Why? They can reach around the world. They buy online, being deal hunters. It seems that jewelry doesn't really resonate with this group.

They like trendy, inexpensive, and innovative things. They look at reviews on websites, they need saleable stories. They also want to make a positive impact on the world, to think about environmental toxins being conscious that jewelry manufacturing can be toxic.

But we must take into account that in future they will be the consumers. They will be interested in one-of-a-kind jewelry that pairs with their personal style.

The jewelry business must adjust to this generation that embraces diversity. It must adapt the marketing approache

The World Bank estimates that the income of Chinese Millennials will overtake that of their US counterparts by 2035. Millennials are said to account for about four in five (79 per cent) of total diamond jewellery acquisitions by volume (pieces) and almost the same proportion (78 per cent) by value among women aged 18–54, who are deemed to be the main consumers of diamonds.

The appeal of synthetic diamonds is high for the millennials, social awareness too, love for technology.

The Millennials are considered to be more distrusful, as they expect brands to earn their trust before they can pursue growth, while those belonging to Gen Z are more individualistic and optimistic and wish to buy products that help build their own personal brands. Millennials and Gen Z both also show concern for social causes. This highlights the opportunity for diamond brands and retailers to be more proactive in communicating the good things that diamonds can do throughout the world. Gen Z are less brand loyal and more addicted to technology, namely online shopping, being more flexible.

We must view the new generations as shaping the future of the diamond industry which must adapt to other values, behaviours and ways of life. A social positive impact is expected (Cleaver 2018)

Conclusions

The stories and cases that have been searched outline the following:

- The fact that the purchasing power has diminished and therefore consumers are searching alternatives for buying the precious gemstones. Diamonds made in labs are identical to the natural ones and they have popularity on the global market.
- Strategies are reconsidered for trading the gems. More digital brands are attracting buyers because the price is lower and it is easier to get them. Social media shopping will increase and the today generation must be convinced with distinct offers. There will be a consolidation of independent dealers on the market as the luxury environment will not disappear.
- The diamond industry remains a centralized market with De Beers company leading few very powerful companies.
- Investment in diamonds is preferred by businessmen, by the money makers because of their rarity, because their supply is limited by the more and more difficult extraction; then, they will always be eternal. Powerful markets or emerging ones such as Singapore, Hong Kong, Bangkok, New York, Los Angeles, San Francisco, Chicago have made diamonds shine even during crises and will continue to remain powerful.

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