VIEWPOINT

DE BEERS

“Fire in the Hole”

Prediction: Lab-Grown Diamonds to Drive the Diamond Giant’s Future Growth

By Chaim Even-Zohar with Pranay Narvekar
n the mining business, shouts of “fire in the hole” are warnings that an explosive detonation in a confined space is imminent. They warn of a dynamite charge that has been set. Depending where you are positioned, ignoring it can be hazardous or even lethal. The Lightbox announcement of De Beers, signalling its policy U-turn of moving into the gem-quality synthetic diamond business, is a comparable “fire” warning to the industry. This explosion may be foreshadowing the eventual end of natural diamond mining. This U-turn by De Beers has always been a question of “when” and not “whether”. The introduction of the Lightbox lab-grown diamond jewellery lines, coming on top of several other lab-grown diamond collections, symbolises another light pole on the edge of the road towards a rapidly growing
In the long term, there will be only one diamond price, one product, without premiums for naturals. But we aren’t there yet – and it might take anywhere between five and fifteen years to get to that point. The Lightbox announcement, however, will unquestionably fast-track this process. De Beers has now taken ownership (or rather macro-management) of a most uncomfortable transition period marked by accelerated disruptions brought about by new technologies, by new entrants into the diamond business and new business models. It may delay, frustrate, or otherwise impact the time-line – but the end result is inevitable.

The diamond jewellery market as we know it today has lost its ability to grow – for the simple reason that it will be running out of its natural product. As it has matured, it will now only stagnate and decline. However, the diamond jewellery market of tomorrow – in which the principal growth driver will consist of lab-grown diamonds – can become a global market worth hundreds of billions of dollars. The Lightbox entry must be seen as positive for the midstream and downstream. The pain suffered by the midstream in the transition period can be mitigated through responsible management – especially when restocking decisions are made.

For the natural diamond miners, it is unequivocally bad news.
restocking decisions are made. For the natural diamond miners, it is unequivocally bad news.

**The Future is Now Here**

Well over a decade ago, we publicly went on record that gem-quality lab-grown diamonds will become “the future” — and that De Beers will join and lead this endeavour. They have made enormous investments in the technology — and they didn’t do so without intention to capitalise on it. Polishing lab-grown diamonds will deliver colossal benefits to the Indian diamond jewellery manufacturing centre. If once upon a time the Indian cutting industry employed over 800,000 workers, this number now could multiply. The added value will be considerably greater, while the working capital required for acquiring rough will be much lower — and will continue to decline.

Historically, diamond traders (erroneously) believed that diamonds were a good investment, that prices would always go up, and that if there was no money to be made in the manufacturing, there would be earnings through appreciation of inventory values. That’s not true anymore (if it ever was). Diamond manufacturers only make money on the added value — on the difference between the raw material costs and the resultant polished product. Today, the added value to be made in polishing small synthetics is higher than working with naturals — and the resultant synthetic polished product (parcels of smalls) often looks better. The diamond producers (miners) led by De Beers have abused their oligopolistic market positions by denying, year after year, any meaningful returns to their rough diamond clients. Unwittingly (or not?), they themselves might have stimulated the move towards gem-quality diamond synthetics.

Let’s not belittle the Lightbox announcement. All the evidence points to a well-thought-out strategy by De Beers, which was put into motion in Q4 2017 (including the trademark registration of the brand name). Clearly, decisions and debates would have preceded that. What it also means is that De Beers has had six months to fine-tune the messaging and communication to the industry. This is why almost all the De Beers spokespersons seem to parrot the same script. This is not a knee-jerk reaction to lab-grown diamonds (LGDs) and an industry saviour appearing at the last minute.

The significance of this move is light-years greater than (ill-fated) strategies such as Supplier of Choice. In Supplier of Choice, clients were required to make major investments in advertising, jewellery ventures, etc. which, at the end, did not serve the clients — except for eroding their equity. De Beers honestly believed in the correctness of that strategy and it didn’t intentionally deceive anyone. The clients made the mistake of “not thinking it through,” sufficiently trusting that De Beers knows what is best — for itself and for them. They cannot afford to make that error again.

As it now plays on both sides of the soccer field, from now on, one can never be certain of De Beers’ intention when it takes any action in the future. That’s reality; this must be recognised and not be lamented. Every action by them can be questioned as to whether it is truly meant to help the diamond business or the LGD business, especially when it calls for sightholders to take on significant additional costs. For example, one can question whether other unilateral action, like, say, the blockchain initiative, is really meant to help the diamond industry or whether it will simply add to its costs without too much benefit.

Everyone will need to take their own call on this. Lightbox is a game changer — but the new game hasn’t started yet, and the new rules haven’t been set. It might become a win-win for both De Beers and downstream — depending on how the game evolves. In the disruptive years, ...
ahead of us, midstream and downstream company heads must become, as McKinsey calls them, “transformational leaders” to navigate effectively through a turbulent transition.

Abandoning the Derogatory Synthetic Nomenclatures

Policy U-turns require extraordinary public relations skills. While sticking for many years to propaganda slogans and unfounded theories that diamond consumers only want the “real thing,” and by threatening clients to stay away from “near worthless synthetic pebbles,” the natural diamond producers led their clients to believe that lab-grown diamonds were not a “legitimate” diamond jewellery product. They felt that lab-grown diamond producers must, at all costs, be denied participation in industry conferences, congresses, and bodies; they were also presented as the industry’s pariahs. Millions of dollars were spent on having regulators adopt the most unfriendly “derogatory” language for usage in nomenclature describing lab-grown diamonds.

Diamond-terminology guidelines ostensibly meant to encourage full, fair and effective use of a clear and accessible terminology for diamonds and synthetic diamonds were embraced by virtually all sector bodies, organisations and traders. The term “cultured diamond” was prohibited and the unfriendly name “synthetics” was to be used – until, after court cases in the US – the Federal Trade Commission had second thoughts about it.

The abbreviated term “LGD” is not sanctioned by De Beers Best Practice Principles (BPP), until the present policy U-turn. The head of BPP uses the term in her own published letters. [A US industry leader marvelled recently that the term LGD so quickly gained acceptance in the market.] Well over $100 million was poured in the Diamond Producers Association (DPA) to fight synthetics. And, absurdly, synthetic diamonds were kept out of the specific diamond anti-money-laundering (AML/CFT) regimes because of the argument that these are “not diamonds.” (Meanwhile, not a single customs officer could see the difference.) Clearly, the natural diamond producers led a war against the gem quality synthetic producers.

The Leader of the Pariahs

In fact, De Beers invested directly and indirectly in great efforts to make these synthetic diamond producers viewed as some kind of industry pariahs. DTC sightholders would conduct their synthetic diamond activities through non-group companies, with the lowest of visibility. Now, De Beers has unashamedly and unapologetically crowned itself as the leader of these pariahs. It has, overnight, legitimised a business whose legitimacy it had been fighting tooth and nail against, for decades. This is a level of arrogance only De Beers can display – and can also get away with. One cannot help but admire them.

To avoid losing its market credibility forever, De Beers has launched a sophisticated information campaign to minimise the impact of its Lightbox synthetic brand on the natural diamond business. Totally ignoring what its lab-grown diamonds will do to the natural diamond world, it claims that “the Lightbox will transform the lab-grown diamond sector by offering consumers a 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.”

First of all, if a diamond lasts forever, it doesn’t matter whether it was mined or laboratory created. It’s the same product. To claim that it discovered that “consumers regard lab-grown
diamonds – as a fun, pretty product that shouldn’t cost that much – so we see an opportunity here that’s been missed by lab-grown diamond producers” is taking a swipe at other LGD producers and hundreds of retailers selling successfully lab-grown diamond jewellery. It’s more than a “swipe”—its “transformation of LGD market” is a euphemism for “regime change”. Here we are; we shall take over!

To claim that teenagers had hitherto been left out and this “untapped” market provided the opportunity – or the trigger – for De Beers to make a U-turn on synthetics seems like alternative facts creation. Yesterday’s truth is today’s fake news. De Beers wants us to believe that just because consumers asked for the affordable jewellery product, De Beers will now create a “new market” that all of the ill-informed existing LGD producers never realised could exist. This is rubbish.

Any way one looks at it, every sale of a quality lab-grown diamond in a diamond jewellery retail store represents a natural diamond that was left unsold. Natural producers, including the mining partners of De Beers, know that.

The Lightbox launch illustrates that the ferocious fights by the natural producers to marginalise, delegitimise, or even ostracise the lab-grown producers have dismally failed. In an odd twist of history, the end-consumers who desire synthetics are the very same consumers who, we were always told, would “lose its confidence in diamonds” if synthetics were allowed to make an inroad into the diamond jewellery market.

Any way one looks at it, every sale of a quality lab-grown diamond in a diamond jewellery retail store represents a natural diamond that was left unsold. Natural producers, including the mining partners of De Beers, know that.
The True Colours of De Beers

Historically, De Beers optimised its profits when it held a solid monopoly over its product. It has lost that position – or is in the process of losing it – in natural diamonds. This is the case in both diamond mining and marketing. **Undoubtedly, getting a monopoly position has now also become its long-term strategy in lab-grown diamonds.** De Beers, having superior technology and hundreds of patents to help it exclude others out of the lab-grown market, will try to corner the LGD business in the decade ahead. Most likely, it will become successful.

De Beers must be careful in its narrative – one doesn’t want to wake up the US Federal Trade Commission or European Competition Authorities too early. Setting up an LGD factory in Oregon is a brilliant move: By undercutting the prices of competitors within the United States, De Beers won’t be seen as “dumping” from an overseas low-labour-cost country, but rather serving **the very best interest of American consumers by forcing down consumer prices.** The very same company that for well over a century has espoused the virtues of ever higher values of diamonds will now simultaneously espouse the virtues of the very lowest possible prices!

De Beers CEO Bruce Cleaver justifies this expected near-collapse of current LGD prices by arguing that they discovered that consumers want “affordable fashion jewellery that may not be forever, but is perfect for right now.” We would argue that a lab-grown diamond will undoubtedly have the same lifespan as a natural diamond, either both are forever or both are not… Actually, when one comes to think of it, if the wife doesn’t last forever, why buy her a natural stone? Lightbox will just do – and there is money left for the honeymoon.

Though one would suspect that De Beers has done extensive modelling and simulations, no one truly knows how this Lightbox launch will impact the prices of natural diamonds. Anyone’s forecast depends on one’s faith in the various product differentiation strategies. A DTC broker in a report cautiously noted his clients’ concerns that Lightbox “may have unintended consequences, such as loss of share of wallet for natural, or at least cannibalisation of that market” and that it may have “an impact on the price of small, coloured and brown goods.” That’s just one reaction for starters – and is still fully based on faith in successful “product differentiation” strategies. In that strange belief, I am an atheist.

**Striving for Dominance. Again.**

Essentially, De Beers has a proven record in fighting defections from cartels or forcing adherence to its policies mostly in two ways: by spending literally billions to undermine competitors’ prices (i.e., prevent defections from the cartel – remember Argyle? Remember Zaire?) or, if that fails, bankrupting the competitors in other ways. [Bain & Co. found the decision to fight Argyle one of the company’s gravest mistakes.]

Any student of De Beers’ history will recognise that the company only truly flourishes when it is the dominant player in the market and can carve for itself the role of price-setter. As much as the law will allow, it excels when it can function as a monopoly. They have now publicly embarked on a policy – and displayed the audacity to publicly imply so – to force the other LGD producers into near-bankruptcy.

Actually, in the synthetics business, De Beers has done this before! In its press releases, De Beers proudly (and rightfully) calls Element Six “a world leader in lab-grown diamond technology for more than 50 years.” What it doesn’t say is that some fifty years ago, it actually had “missed the boat.” General Electric had beaten it in filing patents for its gem-quality diamond synthetic invention. Recalls diamond historian Robert Hazen: “In the early 1960’s De Beers and General Electric commenced a mammoth six-year legal battle costing many millions of dollars – at the time the most protracted of several separate law suits. De Beers challenged the originality of GE’s discovery and the accuracy with which they had described it. To make their case, De Beers engaged a number of expert witnesses to discredit General Electric in the eyes of South African law.” At the end, the parties settled (they agreed on some royalty regime), but essentially De Beers won.

Fast forward to today. De Beers, in 2016, filed a number of patent infringement cases in
the High Court of Singapore against IIa Technologies Pte Ltd., which is currently the dominant market player in gem-quality lab-grown diamond production. IIa Technologies markets its lab-grown polished output under the brand name of Pure Grown Diamonds.

Just like fifty years ago, De Beers is again investing millions of dollars in synthetic patent litigation. If it wins or makes some kind of settlement — which is kind of expected — it might force this competitor out of the market. Doing so would establish Element Six (E6) unchallenged as the dominant player in the lab-grown gem-diamond business. This would also put other LGD producers on notice. No one has as many CVD and HPHT gem-diamond-related patents, registered in so many national jurisdictions, or has as much experience in successfully arguing these extremely complex issues before a judge or jury as De Beers. What patent-owners will learn the hard way, in these wars, at the end of the day, is quite irrelevant who is right but rather who is left.

**Element Six: The Lowest Cost LGD producer?**

And the betting is solidly on De Beers for “being left”. Noted mining analyst Des Kilalea sums it up as follows: “Some manufacturers of LGDs have suggested that it is not possible to make a return [on consumer sales] at $800 per carat, suggesting that the business will be a loss leader to damage the LGD market. De Beers says it will make a “good return” on the $94 million which it is investing in Lightbox [factory] in Portland. Our view is that other LGD makers may well not be able to compete on cost, as they do not operate on the scale which Lightbox proposes (500kct of LGD rough converted into 200kct of polished).” Kilalea is apparently unaware of the output levels and efficiency of some of the other LGD producers.

“Besides,” says Kilalea, “competitors do not have the diverse product range of E6 (products supplied to military, high tech and other sectors) over which to amortise development costs and overheads. So, we believe the marginal cost of making LGDs is likely to be significantly lower than for other LGD makers, and improving technology should see further reductions. It is worth noting that BHP Billiton investigated entering the LGD market and one of its executives told us several years ago they declined because barriers to entry were likely to fall, which did not justify investment.”

We are not (now) arguing the point made by Des (though we don’t underestimate the resiliency of some of the LGD competitors), but we are thinking about the “morning after”. **What will De Beers do when it has secured its monopoly position?** When it becomes the LGD price setter? Will it suddenly move the LGD price up to the natural price? Will it also produce ever larger lab-grown diamonds? Have one price? Or may it withhold the LGDs from the market to support the natural product? The answers are far beyond me — and it may take still a few years to get there.

**It’s All about Patents: The Sky is the Limit**

The Lightbox announcement came at the end of May. At the same time (in May and early June), a few CVD-related patents, which Element Six had applied for in late 2017, were published. Removing all the (amazing and mind-blowing) scientific language, it shows that **Element Six has the know-how to grow CVD layer on layer.**
In this process, the very thick (high) stone is synthesised as one diamond and, apparently, no “dividing lines” are visible. This literally means that, in terms of size potential of stones, the sky has become the limit (subject to available capacity of the growers).

Many producers, not only Element Six, possess know-how that they keep to themselves, and patent it only at the last moment, only when the product hits the market. This is done to prevent patent theft – as it is impossible to take a CVD diamond and “back engineer it” to arrive at how the processes work. On the other hand, the main advantage of patenting the technology is to be able to go after other CVD producers accusing them of infringing your patent. De Beers has done that before, it is doing it now, and may well do so in the future.

Though the market reacted sceptically to statements about Element Six’s ability to sell at discounts of 75% to the prices of other LGD producers, and below 90% of comparable natural stones, my scientist friends tell me that these figures are attainable. Element Six would not be dumping, i.e., selling at prices below production cost. But the issue for the diamond market is “sizes”.

Somehow, Element Six is suggesting jewellery anywhere between 0.25 carats and 1.00 carat sizes. But Element Six has the know-how to grow large or even very large stones. Says one of my friends: “Once certain barriers were overcome in CVD, the sky has always been the limit. Given the size and power of your growth chambers. Crystals don’t have a ‘memory’ per se, so growing on a substrate 1 mm thick is no different than one of 20 mm. It’s just a matter of feeding gases into the growers.”

If Element Six can make good money producing beautiful fancy coloured or pure white large stones, will they leave that part of the market to other LGD producers? Don’t bet on it.”

De Beers has, over many years, prepared itself for the day it would join – and ultimately lead. When announcing its Lightbox branded line of lab-grown jewellery, whose registered trademark they interestingly applied for only in late 2017, De Beers observed that “any Lightbox lab-grown diamonds of 0.2 carats or above will carry a permanent Lightbox logo inside the stone.” Let’s again turn the clock back some 14 years. Diamond Intelligence Briefs reported that Element Six had just (2004) applied for a patent registration for “a method of incorporating a mark of origin, such as a brand mark, or fingerprint in a CVD single crystal diamond material.” Much of the research, and many of the patents, had no use for industrial diamonds. However, the gem-quality CVD market was always on their minds.

One of the recently published patents also indicates methods to grow stones that can be converted into blues and pinks at a much faster rate. In these (Lightbox) colours, Element Six may indeed have a lower cost advantage over other producers.

As a matter of fact, Element Six has patented ways of colouring the lab-grown diamonds to brown, pink, blue, yellow, etc. These are all quite different and complicated processes, and enormous resources have been invested getting to this technology. One of the patents recently published
by Element Six also indicates methods to grow these coloured stones at a much faster rate, giving it a lower cost advantage over other producers. These patents weren’t needed for industrial applications — this was mostly done to “get ready” for the inevitable day. That day has now arrived.

Impact on Natural Diamond Producers

Though the eventual entry of De Beers into the lab-grown diamond business was never doubted, the timing caught most of us by surprise. Maybe it shouldn’t have. The parent company of De Beers, Anglo American (85% owner), had identified synthetics as a “principal risk to our natural diamond business.” Anglo American, in its 2016 annual report, concluded that “technological developments are making the production of man-made gem synthetics commercially viable and there are increased distribution sources. The marketing of synthetics seeks to place them as being environmentally or socially superior.” [Italics added.]

Anglo American summarises the impact of synthetics on the natural diamond business as representing a “potential loss of polished and rough diamond sales leading to a negative impact on revenue, cash flow, profitability and value.” Anglo American realised that, at the end of the day, any consumer buying a lab-grown diamond is a consumer who did not buy a natural diamond. It is as simple as that – and it isn’t without solid reasons that in our annual Tacy Diamond Pipeline we have incorporated the lab-grown production on the supply side and thus also on the polished demand equations. It is not that the threat materialised out of thin air. It was incorporated into the pipeline quite a few years ago. So, what made Anglo suddenly recognise the threat and then for De Beers to rapidly act on it?

Turning the “Threat” into a “Star”

We think the credit should go to the CEO of De Beers, Bruce Cleaver. It is probably no surprise that the strategic “threat” was recognised by Anglo American when Bruce Cleaver, who has a legal background and is an outsider to the industry, took over the reins at De Beers. Many of the current executives “don’t come from diamonds.” They don’t have the emotional attachment to the product. They have one task: deliver return for shareholders. Other stakeholders are less important. De Beers, in the last few years, noticeably relied on the strategic advice of the Boston Consulting Group (BCG). It was BCG that designed the blockchain strategy for De Beers. Some Forevermark executives occupied positions at BCG before joining De Beers.

BCG is also famous for the BCG matrix which helps companies to analyse their portfolio of specific products based on the market share and growth rate. At De Beers, lab-grown diamonds for the jewellery market can quickly capture a high market share in an otherwise slow-growing market and grow the product industry demand. Such products are called by the BCG-matrix “Stars”.

Natural diamonds represent an industry where they currently have a high market share, but it is a low growing or stagnating market. These are viewed by BCG as “cash-cows” which typically generate cash in excess of the amount of cash needed to maintain the business.
**Lightbox: The “Cash-Cow” of the Future**

Following the BCG logic, Lightbox wouldn’t have been done just to remain a “fringe product” serving the “fun jewellery” teenager market. In the BCG matrix Lightbox is a “star”. It can gain quickly enormous market share in the still infant gem quality synthetic diamond market. Therefore, it had to be linked to an “undercutting competitors” pricing strategy that would force other producers out of the market. De Beers expects its LGD business to go from strength to strength. Lightbox is the least “painful” way to communicate the U-turn to the market.

LGDs are “stars” that will lighten the De Beers firmament.

With the almost hysterical efforts to convince the trade that through product differentiation the industry can sustain two “different” markets, at the end of the day, and with due respect to all the sophisticated detection equipment, it doesn’t make a difference to the consumer. Consequently, it doesn’t make a difference to the retailer either. The retailer will “sell” the product on which it makes the highest profits. It can sell the “diamond dream” just as easily with LGD as with natural diamonds. Have no illusions: he will and he does.

Pranay and I visited a jewellery store in the United States that only sold lab-grown diamonds. On the walls of the store there were huge posters depicting pictures from satellites showing the massive disruptive environmental footprint of the Jwaneng mine in Botswana. There were also pictures of child labour involved with mining and manufacturing natural diamonds, etc. Actually, all the materials produced by the natural diamond NGOs (Global Witness, or what was Partnership Africa-Canada, etc.) were thoroughly put to good use by this store’s lab-grown promotion efforts.

However, what was most impressive was that over 95% of this store’s lab-grown diamonds were sold to young couples, as wedding and engagement symbols. The soon-to-be newly-weds were actually seeking these lab-grown diamonds and they were willing to pay top dollar, as well. They saw it as an “American-made” product, as an ecologically green product. American labour. American love! This is not what De Beers has been telling us – emotional wedding jewellery was supposed to be only for natural diamonds. With the millennials, this is wishful thinking, bordering on self-delusion.

Back to Anglo American corporation. Risk management is a continuous process, conducted at top corporate levels. Strategic decisions are made on levels beyond that of De Beers. The term used is “risk appetite”. Whether the company can carry the risk, whether the risk mitigation efforts are working, or not. If the principal risk in any business cannot be addressed, such business would either be closed or disposed. I am not privy to internal Anglo American discussions, but if the company would control the gem-quality synthetic business, it surely could mitigate the damage to the mining business. But only up to a point.

**Exploration Funding will Dry Up**

Pranay and I are quite tuned-in to the sentiments of the mining community. What we discovered in recent years at the world’s largest mining and exploration shows in Canada (PDAC) was that money for diamond exploration is drying up. Why spend tens or hundreds of millions of dollars searching for new deposits, while – after finding a deposit – more millions would be needed on resources estimation, getting bankable feasibility studies, getting environmental approvals for developing a mine, permitting, licensing, etc., if you don’t know what the price and demand for the product will be ten years or more down the road? It’s a vicious circle. When existing deposits are depleted, when mines close, when no new mines are put into production, the further growth of the industry will solely come from lab-grown diamonds.

Des Kilalea observed that following the Lightbox announcement, existing mines may increase their cut-off sizes, i.e., they will not bother to mine rough in sizes of less than a few millimetres, as there won’t be demand for these smalls. That part of the market will be taken over by synthetics – if it hasn’t already.

That by itself would trigger a reduced volume production of natural diamonds. This would greatly impact Russia. In a private communication, we learned that Alrosa, at the highest levels,
was furious with the De Beers Lightbox announcement. Alrosa consciously decided to show constraint in its public utterances, so as not to upset the market too much, but they are fuming. They probably realise what is happening here. It may herald the beginning of the end to natural diamond mining. If mining cost exceeds achievable market price, mines are closed. It’s that simple.

**De Beers as Diamond Trader and Retailer**

Alrosa is quite different from De Beers. *Alrosa is a pure diamond mining company, with almost no midstream or downstream exposure.* It owns its own mines (with the exception of an Angola joint venture). De Beers ceased to be a true diamond miner a long time ago and is more of a trader. In Botswana, it owns 50% of the Debswana mines, and it earns a margin as a trader of most of the output. Same story in Namibia. In South Africa, where it has few remaining mines, these are also joint ventures. Oh yes, it owns mines in Canada – and I am sure there are many executives at De Beers who wished they had never touched that continent. Billions of dollars were wasted there.

In contrast, De Beers has become a fully *vertically structured diamond trader* – except for polishing, because there is no money to be made in the midstream sector. [It knows that better than anyone else – after all, they are the sector’s main rough supplier.] Even for Lightbox jewellery, they have already announced plans to outsource the polishing in India – as if to support my views that lab-grown diamonds are truly good news for this manufacturing country. De Beers is involved in polished recycling, polished grading, franchising its Forevermark brand, and operating its own jewellery stores. In none of these areas do they hold a competitive
advantage or are particularly successful. But, looking at their activities, they can hardly still be viewed as a true mining company.

For now, De Beers is playing down the Lightbox impact. It says it will only start producing in Oregon by 2020 and produce 500,000 carats of rough (generating 200,000 carats of polished). There are currently some 15 lab-grown gem diamond producers in the world and their output is limited. [We are not talking about the billions of carats of mainly Chinese made industrial synthetics, which is increasingly having an overspill into the gem market.] Only Singapore’s IIA Technologies Pte. is producing significant volumes which we estimate at around 400,000 carats annually at the moment – and increasing. The present sales of Lightbox LGD will come from De Beers UK production and from its stockpile. Nobody knows how much there is out there. As it will start selling shortly, it must have the critical mass to sustain an effective launch.

To soothe the industry’s anxieties, De Beers says that “this Lightbox is just a $200 million business; our natural business is $6 billion.” First of all, that statement isn’t accurate – it views joint ventures’ output as part of their own. On the sales to the sightholders, they are allowed a certain margin. It’s not the turnover that is relevant – but rather the margins realised. That is as true for De Beers as it is for Indian traders. De Beers will earn 100% of the Lightbox profits – at margins it can, eventually, fully control. Moreover, if it can produce $200 million, it can also produce $2 billion. Or more.

Undesired Spillover Effects

One of the more predictable spillover effects of the trade war announced by De Beers against the other LGD producers is for the endangered companies to resort to – or condone their clients to – selling undisclosed synthetics. The fact that De Beers has “legitimised” lab-grown diamonds in a big way may make it easier to “forget” the origins of the stone. It doesn’t really matter. Or does it?

What it does illustrate is that if and when De Beers becomes the dominant producer and the price-setter of the LGD market, it will undoubtedly capture the monopoly of profits such production allows. Bankrupting the smaller LGD players may not be as easy as one might think. The Lightbox promotions of the lab-grown product will, in fact, be beneficial for all lab-grown producers.

What seems certain is that for quite a while, consumers and traders will be confused. The Lightbox entry offers challenges and opportunities – and was unavoidable in any event. In the short run, De Beers will be seen by their own clients as unreliable, disloyal and untruthful suppliers. Few clients will say so aloud.

Looking Ahead

In any event, many diamantaires (and De Beers’ clients and partners) suffer from selective amnesia in anything involving De Beers, and disloyal acts will be quick to forgotten. They will swallow their pride and set aside their anger and happily apply for ever more natural rough – maybe in the hope to get a Lightbox franchise as well. “De Beers still does continue to try and “appear” like a custodian, even when it is not. [It prefers to be seen as the industry’s “leader.”] It is like an overprotective mother who wants the child to be a “mama’s boy” while also complaining about the son not moving out,” concludes an astute industry observer.

Des Kilalea stresses that De Beers had no choice – it had to do this to protect the natural diamond business. “De Beers has been considering and developing this strategy for several years and the inroads of LGDs into the market for natural stones made this move inevitable,” he notes. Here I totally disagree. De Beers had to do this to protect its own business. It made a brilliant move, as we said already, for its own benefit.

All others, including mining companies, must now consider their own response to the challenge. It goes beyond that. Strategically, this little Lightbox “dynamite” explosion heralds the renewed lease of life for De Beers – it will probably still be the world’s leading diamond supplier long after all of its natural diamond deposits have been exhausted. De Beers will adapt and reinvent itself – forever.

The views expressed in this article are solely those of the authors.