GUIDE TO NAVIGATING KEY CHALLENGES IN THE NATURAL DIAMOND INDUSTRY IN 2024

BASED ON A WEBINAR BY MARTIN RAPAPORT
"THE WAY FORWARD 2024"

By **Shayna Roth**

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It's not an easy time for the natural diamond industry. As global sanctions against key players reshape the market, and the ascent of synthetic diamonds challenges traditional pricing and sales paradigms, key stakeholders have to rethink their approaches. Martin Rapaport, CEO of the Rapaport group and a luminary in the diamond trade, urges 'naturalists' to take a proactive stance, emphasizing the need for innovative strategies to weather the storm.

In this e-book, we look into diamond market dynamics, exploring the rise of synthetics, the quest for sustainability, and the impact of sanctions on the diamond market. Despite the many complexities, we'll uncover strategies for thoughtfu repositioning and maintaining relevance in this somewhat unfamiliar market landscape.

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THE RISING DOMINANCE OF SYNTHETIC DIAMONDS

THE SLIPPERY SLOPE: DECLINING DEMAND AND PRICES FOR NATURAL DIAMONDS

The diamond industry finds itself in the middle of a perfect storm, facing global sanctions against strategic players and the rise of synthetics. These factors aren't merely temporary disruptions; they are fundamental shifts that will shape the industry's long-term trajectory. Adapting to these challenges demands a proactive approach, a willingness to evolve, and a commitment to innovative thinking. According to Martin Rapaport, “the challenges we face are not going away. The industry will have to fight to survive. We will have to change - move differently, think differently. The outlook is good, but only if we take action.”

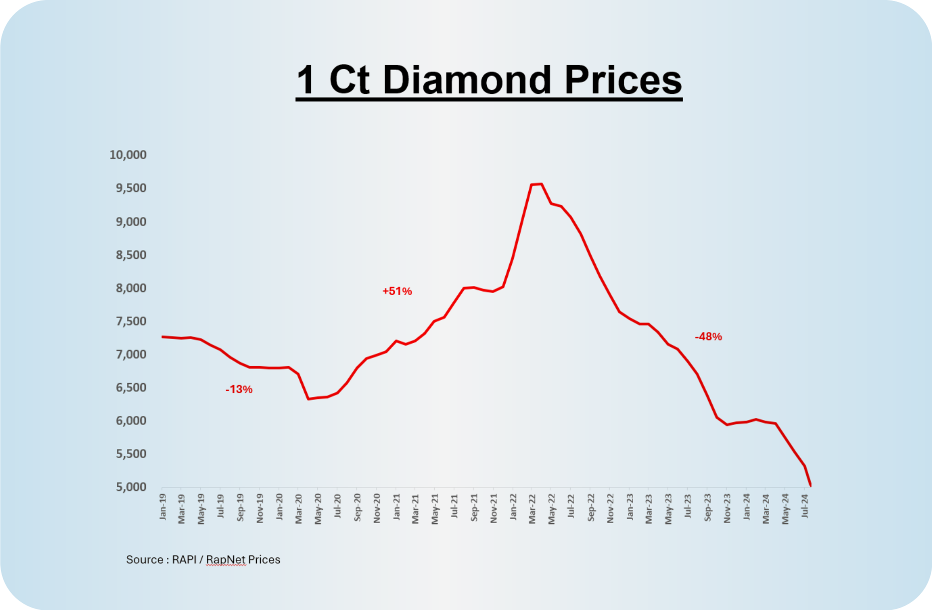
Rapaport is expecting a potential 20% decline in natural diamond demand and revenue for 2024, with synthetic diamonds projected to claim a substantial portion (over 40%) of the US engagement ring and bridal market. He also believes that the battle for fine jewelry is only just beginning, requiring strategic maneuvers from jewelers to stay afloat.

Looking at diamond prices between 2019 and 2020 (see Table 1: Diamond Prices) a clear downward trend can be seen, most certainly exacerbated by the emergence of synthetics. Then COVID hit, and the injection of the government COVID stimulus in 2021 briefly inflated prices, only to see a sharp decline again in 2023. According to Rapaport, “it was like bust, boom, and then bust.”

This volatility underscores the industry's vulnerability to external factors, particularly liquidity dynamics and consumer behavior.

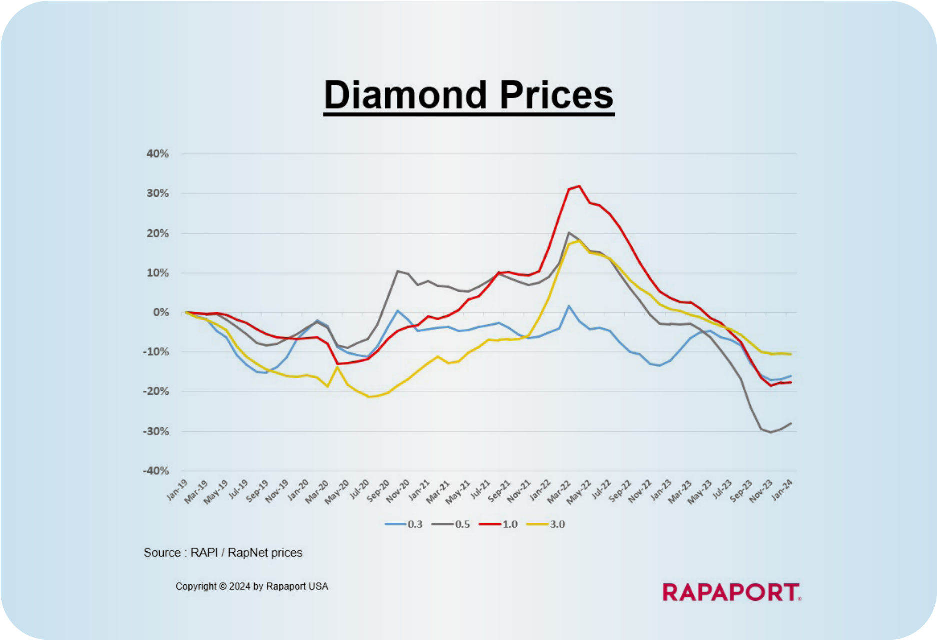
> *"Currently, the market has worse prices than it did in January 2019. This could be the beginning of a rock bottom, although Rapaport predicts another 20% decline in revenues."*

Table 1: 1 Ct Diamond Prices



The trend is the same across diamond categories, as can be seen in the next graph.

Table 2: Diamond Prices

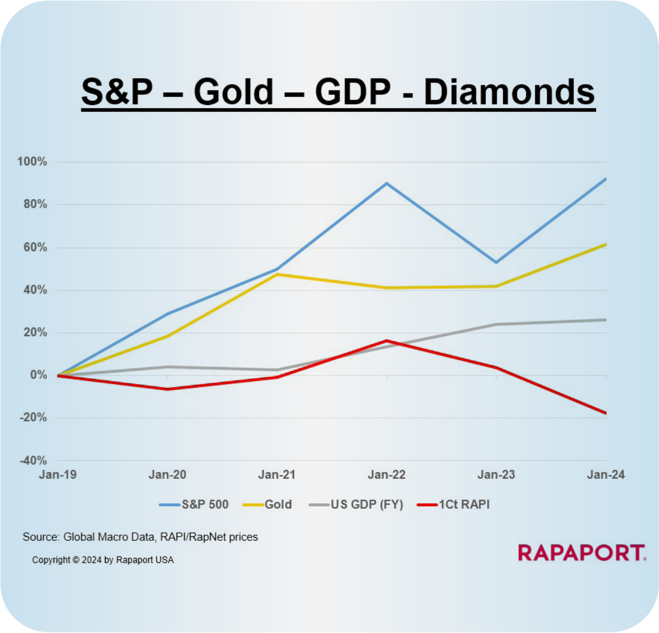


For current and up-to-date prices, see the [RapNet diamond price calculator]

THE OUTLIER: DIAMOND VALUES DIVERGE FROM OTHER ECONOMIC INDICATORS

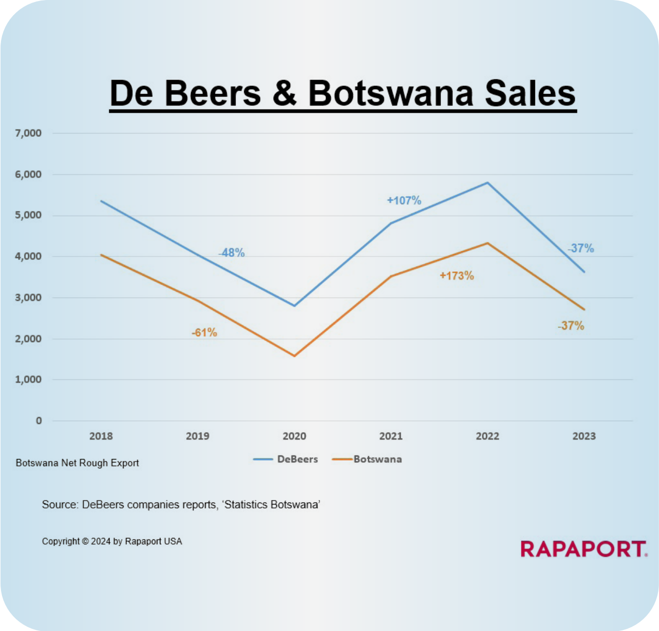
Looking at the S&P 500, US GDP, and diamond market for the period January 2019 to January 2024 (See Table 3: S&P-Gold-GDP-Diamonds), we can see that diamonds are not behaving the same as other strategic economic indicators. This begs an important question - why is gold going up and diamonds going down? For Martin Rapaport, "...this is telling me that there's something fundamentally wrong."

Table 3: S&P-Gold-GDP-Diamonds



De Beers, a barometer of diamond market trends, has experienced a significant downturn, with a 37% decline in revenue in 2023 (See Table 4: De Beers and Botswana Sales). This dip, attributed in part to a temporary halt in Indian purchases, highlights the industry's susceptibility to global disruptions. This trend is alarming, signaling potential further losses. Further, it is clear that Botswana and De Beers are tied together, a concerning situation.

Table 4: De Beers and Botswana Sales



Martin Rapaport indicates that this is a serious situation *"They're down 37% in their revenue. I'm predicting they're going to lose another 20% in revenue. This will take them under 3 billion - that's scary. That's bothersome to me. This thing is like a three-alarm fire for the diamond industry in general."*

FIGHTING THE DOWNWARD TREND: RECALIBRATING PRICING STRATEGIES IN RESPONSE TO A CHANGING MARKET

De Beers can essentially deploy one of two primary levers to manage its revenue: increase/ decrease its prices, or increase /decrease the quantity it sells. In response to market pressures, De Beers took proactive measures in January 2024, opting to lower prices by approximately 10%. This decision aligned with their longstanding policy of avoiding inventory accumulation. The timing was crucial, particularly considering the two-month moratorium on rough diamond imports in India, which had swelled De Beers' inventory levels.

Lowering prices inevitably impacts revenue, underscoring the importance of pricing decisions in influencing financial performance. Pricing is an important game, but according to Martin Rapaport it is not the only game: “You need to think revenue - prices are not so important, because I can sell less at a higher price and actually have greater revenue,” he says.

While pricing is indeed crucial, for the diamond industry the overarching focus should be on revenue generation as a whole. Profitability in the diamond industry is not solely determined by mining and selling diamonds at fixed costs. Instead, it involves buying diamonds at a certain price (X) and selling them at a higher price (X plus Y). This margin (Y) constitutes the profit. Therefore, even if prices decrease, profitability can still be maintained or even increased by ensuring the margin remains favorable.

A shift in focus to revenue is critical given the threat synthetic diamonds pose to the natural diamond market. This threat isn't simply fearmongering - contrary to popular misconceptions, reduced diamond sales weren't just attributable to overstocking or other market forces. They stemmed from synthetic diamonds capturing market share, particularly in the lucrative engagement ring segment. It is the reality and it is reshaping the industry landscape.

> *“So the question is how much can you increase the quantity of your sales by reducing price? It's called elasticity of demand.”*
>
> *– Martin Rapaport*

Understanding price elasticity is pivotal for devising effective pricing strategies. In essence, the diamond industry's profitability hinges not solely on mining and sales margins but on the value-added services and perceptions associated with diamonds. By recalibrating pricing strategies to align with market realities and consumer behaviors, stakeholders can weather the storm and emerge stronger. Adaptability, foresight, and a commitment to value creation will be the hallmarks of success in navigating the uncertain terrain ahead.

THE WAY FORWARD: SEGMENTATION OF SYNTHETIC AND NATURAL DIAMOND MARKETS

Synthetics are expected to capture an estimated 40% of the US engagement ring and bridal market. Although some estimates suggest they currently hold about 20% of the market, their dominance is more pronounced in the engagement ring sector. Synthetics have made substantial gains in this market because they have been able to make windfall profits.

> *"Someone walks into the store, and the retailer engages him by switching his focus from a $15,000 natural stone to 'the same' lab-grown diamond for $7,000 or $8,000. But realistically they can actually buy it for $2,000. So the profits have been very high for synthetics which is attracting everybody to the industry."*
>
> *–Martin Rapaport*

However as synthetics continue to gain market share, their plummeting prices (as can be seen in Table 5: 2023 Natural vs Synthetic Price Changes below) , which are likely to reach as low as $10 to $80 per carat according to Rapaport, will intensify competition. This downward pressure on prices will impact retail revenue and profit margins. Despite the profitability of synthetics in the short term, the oversaturation of the market will lead to reduced margins over time.

It is reasonable to expect synthetic diamond B2C prices to decline to the same level as synthetic ruby, emerald, and sapphire prices did. To understand the future of synthetic diamonds, you need to look at the history of these gemstones. While it may play out slightly differently for diamonds, the fate of other gems definitely offers insight into potential trends.

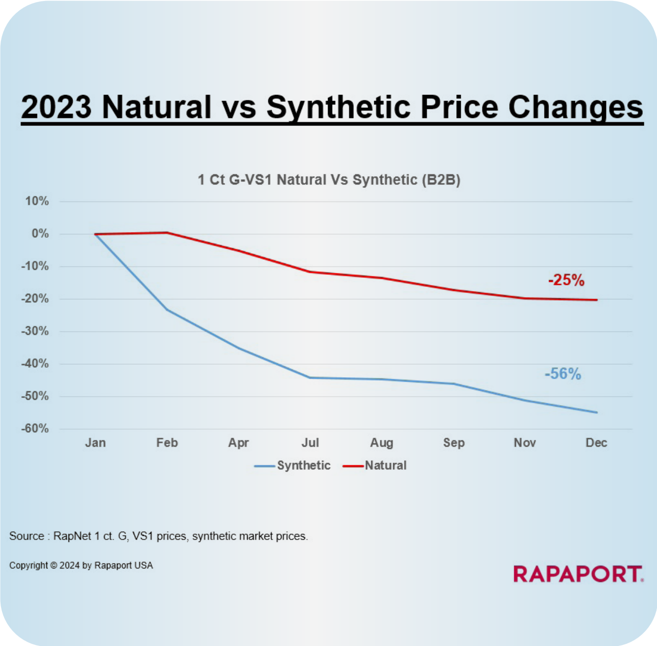
The profitability of selling synthetic diamonds, which cost tens of dollars per carat, compared to natural diamonds which cost thousands of dollars per carat, depends on various factors, including the type of business. Companies like Swarovski, Pandora, Walmart, and Amazon can thrive with products at lower price points. For instance, Swarovski is known for its beautiful designs using crystal glass, yet it runs a successful business with numerous stores worldwide. If your business model is suited for it, synthetics could be a lucrative venture.

While there are exciting possibilities with less expensive colored gemstones, the crucial question remains: Can US independent jewelers sustain a viable business selling synthetics instead of natural diamonds? While some may sell both synthetic and natural diamonds, the integrity of making an honest living amidst market complexities is a significant concern.

Although there is currently an apparent connection between synthetic and natural diamond prices (See Table 5: 2023 Natural vs Synthetic Price Changes) - possibly as a result of retailers dropping the prices of natural stones to try and compete with lab-grown diamonds - Martin Rapaport believes that as synthetic diamond prices drop along with profit margins, the impact on natural stone prices is likely to be somewhat surprising, and more positive than expected. In the long term, he foresees a clear separation between synthetic and natural diamonds for the engagement ring market.

This segregation will involve clear product differentiation, with distinct categories for natural and synthetic diamonds. Market segmentation will become more apparent, distinguishing between luxury, fine jewelry, fashion jewelry, and the bridal or engagement market (a subset of luxury). Broadly speaking, there will be multiple diamond markets, each with its own unique offerings and customer preferences.

Table 5: 2023 Natural vs Synthetic Price Changes



ALL THAT GLITTERS: PITFALLS OF SYNTHETIC DIAMONDS

Synthetics pose unique challenges as competitors as they can be difficult to detect and can be easily mixed in with natural stones. This makes them susceptible to fraudulent trading.

Detection limitations present a significant hurdle. For instance, lower-color synthetic diamonds are difficult to identify using standard machines. Even with sophisticated equipment, distinguishing them from natural stones requires extensive testing, often necessitating laboratory analysis. This becomes especially complex with small melee diamonds, where distinguishing between synthetic and natural is exceedingly challenging.

Mixing synthetic and natural diamonds further complicates matters. Some jewelry may contain a combination of both, making it challenging for consumers to discern the authenticity of the stones they're purchasing.

Instances of outright fraud add another layer of complexity. Fraudulent practices include cutting synthetic diamonds so they mimic natural ones. According to Rapaport there have been unethical practices in the past in the synthetics industry, including the nondisclosure of synthetic origins to consumers. However, major sellers and retailers seem to have improved transparency and are now more forthright about the differences between synthetic and natural diamonds.

It is essential to approach this issue with caution and awareness, and recognizing the potential pitfalls of synthetics is crucial. The natural stone industry should focus on educating consumers and separating the markets as effectively as possible to ensure transparency and trust.

THE ALLURE OF SYNTHETIC DIAMONDS

For certain segments of the market such as fashion jewelry, the value proposition for natural diamonds is less clear-cut. While authenticity and prestige may drive some purchases, there's a growing trend among younger consumers, particularly Gen Z and Millennials, toward embracing "dupes" or duplicates – items that resemble luxury goods but come at a fraction of the price.

The stigma surrounding non-genuine items has largely dissipated, with consumers now proudly embracing duplicates that offer a similar look and feel without the hefty price tag. This cultural shift extends beyond fashion jewelry and into other luxury markets. As Rapaport points out "... research shows if you have a Birken bag and you can buy a $5 or $10 copy people are not going to do that. But a $100 or $150 copy of a $10,000 pocketbook? Women will buy that. Dupes are everywhere for everything."

Furthermore, sustainability and ethical considerations are reshaping consumer preferences, particularly among younger demographics. Lab-grown diamonds, often produced using renewable energy sources, are gaining traction as an eco-friendly alternative to natural diamonds. Concerns about child labor and the environmental impact associated with traditional diamond mining drive some consumers to prefer lab-grown diamonds.

In the US market, where over 50% of the world's diamonds are purchased, these shifting consumer attitudes have significant implications. Sustainability and social responsibility are increasingly valued, with many consumers willing to pay a premium for products that align with their ethical values.

The desire to showcase sustainability-conscious choices and socially responsible consumption extends to engagement rings, where the symbolism and cultural significance of the diamond hold considerable weight. Proudly displaying a diamond that is not only aesthetically pleasing but also ethically sourced and environmentally friendly becomes a point of pride for some consumers.

So does that mean natural diamonds are losing their appeal? Far from it, particularly in the engagement ring market.

IT'S ALL ABOUT POSITIONING: EMPHASIZING THE EMOTIONAL VALUE-ADD OF 'NATURAL'

The big issue plaguing retailers of natural stones is the question of how to persuade consumers to buy natural diamonds at nine times the price of the same quality synthetic diamonds. To date, the primary strategy when competing against synthetics is to capture the emotional added value inherent in naturals. But why do individuals buy engagement rings in the first place? In a world where one-night stands are readily available via apps like Tinder, the significance of marriage may seem diminished. However, as women mature and seek deeper connections, the fleeting excitement of casual encounters loses its allure. The market is shifting as Millennials age and seek lasting relationships.

So, why do men buy engagement rings when they could invest in other gifts, like a car? Diamonds serve no practical purpose - you can't drive them like a car. The essence of a diamond is in its symbolism – it's a tangible expression of love, a gesture that transcends utility. Love is intangible, but a diamond can encapsulate that sentiment in a way that words often can't.

The diamond engagement ring market is where the battle for emotional added value is most pronounced. Consumers who are willing to invest in something truly special, something that reflects the depth of their feelings, represent the target demographic. These are individuals who prioritize quality and emotional resonance over price.

In economic terms, the diamond engagement ring market embodies conspicuous consumption – individuals showcasing their wealth and devotion through lavish purchases. For many grooms, buying a cheap diamond is not an option; it reflects poorly on their status and commitment. As such, the more affordable synthetics become, the less appealing they are for engagement rings among affluent consumers.

This creates an intriguing phenomenon in this market segment: an inverse relationship between price and demand. Typically, when prices decrease, demand rises, and vice versa. However, for affluent or newly wealthy consumers in the engagement ring market, the higher the price, the greater the demand.

"Change your head. Stop sweating over price. Don't compete on price. Find anything else that increases the willingness to pay, which is called adding value. That's where you need to go if you want to succeed in the future diamond industry for natural diamonds."

–Martin Rapaport

Consider luxury cars like Mercedes-Benz. While you could purchase a perfectly functional Toyota for a fraction of the price, people still opt for the Mercedes. The performance of a Mercedes may not justify its steep price tag compared to a Toyota, but buyers are willing to pay more for the prestige and status associated with the brand. Similarly, in the world of engagement rings, price is not the primary concern for these consumers. Instead, it's about the willingness to pay for something special to commemorate the commitment of a lifetime.

Consumers of these brands like Tiffany understand this dynamic well. Consumers of 'luxury' brands don't object to paying a premium; in fact, the higher the price, the more desirable the item becomes. Therefore, by differentiating natural diamonds from synthetic ones and charging a premium for them, demand can actually increase. While some dealers may struggle to grasp this concept, high-end retailers and luxury brands have already begun to embrace it. As Rapaport puts it " If you've got nothing to offer but a cheaper price, my advice to you is to sell synthetics."

KNOW YOUR CUSTOMER: UNDERSTANDING THOSE WHO BUY NATURAL DIAMONDS

There is a crucial point that jewelers must grasp: natural diamonds are not for everyone. There's a troubling trend in the industry where some individuals will sell anything to make a sale, disregarding the integrity of the product. Natural diamonds are special and should command a premium price. If you compromise the value of your diamonds by cheapening them, you're doing a disservice to the industry.

> *"If you want to be in the real diamond business you have to respect your products, you have to respect yourself, you have to respect your profits, and you have to respect your customers too. But not everyone can be your customer. Natural diamonds are special and they should be expensive. If you cheapen your diamonds you don't deserve to be in this industry."*
>
> *–Martin Rapaport*

Selling diamonds at $100 a carat may seem like a good deal, but it undermines the prestige and exclusivity of natural diamonds. Even if synthetic diamonds are of high quality, they cannot replicate the unique allure and emotional value of natural diamonds.

Therefore, successful diamond jewelers should stop focusing on selling based solely on price and instead prioritize finding the right customer and making a good profit. This is the ethos that has defined the diamond business historically. Those who truly understand and respect the product will thrive in the industry, while others may need to reconsider their approach or exit the business altogether.

> *"If you don't have the right customer what are you trying to do selling steak to vegetarians? Even if you say, "I've got a cheaper price for this steak," what are you achieving? Target your market and know who you're selling to."*
>
> *–Martin Rapaport*

While the engagement ring market is significant, attention must also be given to other segments of fine jewelry. Tennis bracelets, pendants, and other jewelry items are also at risk of being targeted by synthetics. Jewelers need to be proactive in safeguarding these segments while not losing sight of the lucrative engagement ring market. It's about understanding the market dynamics and targeting the right audience to ensure long-term success in the diamond industry.

CHALLENGE TWO:

NATURAL DIAMONDS AND SUSTAINABILITY CONCERNS

THE COLLECTIVE RESPONSIBILITY FOR GOOD ETHICS IN THE INDUSTRY

The diamond industry faces a significant problem: real diamonds are often perceived as being associated with unethical practices, particularly child labor. While it's true that child labor exists in many countries, it's essential to recognize that legitimate diamonds can be sourced responsibly without contributing to exploitative labor practices. However, the perception persists that diamonds are linked to dirty and deadly business practices.

"About 75% of GenZ consumers said that sustainability was more important to them than brand... and 71% were willing to pay more for sustainability products... For some, having a stone made with renewable energy is something to brag about."

- Wall Street Journal, Jan. 11, 2024

As individuals in the industry, we must acknowledge our collective responsibility. Selling diamonds from unknown sources poses ethical risks, as there's a probability that they may be associated with unethical practices. Approximately 20% of diamonds may come from artisanal sources, highlighting the need for greater transparency and accountability in the supply chain.

It's not enough to differentiate between synthetic and natural diamonds; we must also distinguish between good and bad diamonds and, by extension, good and bad actors in the industry. Dirty diamonds tarnish the reputation of the entire industry, undermining the aspirational luxury status that natural diamonds should represent.

> *“Organizations like the Kimberley Process (KP) aim to certify diamonds as conflict-free, but the reality is more complex. Some aspects of the industry are disturbing, such as the KP stamping everything as "kosher," which is appalling. It's a stain on the diamond industry's reputation, and trade organizations that support such practices are complicit in perpetuating this image of moral compromise.”*
>
> *–Martin Rapaport*

TRACEABILITY AND TRANSPARENCY: FOLLOWING TIFFANY’S LEAD

Companies like Tiffany lead the way by prioritizing responsible sourcing and transparency in their supply chains. By tracing the origin of diamonds and ensuring they come from ethical sources, they add value to their products and uphold their reputation for integrity.

This emphasis on traceability and ethical practices extends to rough diamonds as well. By implementing robust tracing systems, we can ensure that every diamond, from rough to polished, comes from a responsible source. This not only addresses concerns about unethical practices but also helps solve issues like synthetic diamond switching, as a reliable tracing system can verify the authenticity of each stone.

CHALLENGE THREE:

DEALING WITH SANCTIONS IN THE DIAMOND TRADE

Amid Russia's ongoing conflict with Ukraine, governments worldwide have imposed sanctions targeting various sectors of the Russian economy, including the diamond industry. These sanctions have led to disruptions in the global diamond trade - governments are scrutinizing diamond imports more closely, with a focus on ensuring that diamonds sourced from Russia or its allies are not entering their markets.

OVERCOMING REGULATORY CHALLENGES

The heightened regulatory environment poses challenges for diamond traders, who must navigate complex compliance requirements to ensure their diamonds comply with international sanctions regimes. This includes verifying the origin of diamonds and ensuring they are not sourced from entities subject to sanctions. These regulations scrutinize not only suppliers but also the goods themselves. This heightened scrutiny has increased regulatory complexities for diamond traders and importers, potentially affecting the flow of diamonds into key markets like the United States.

> *"Importing diamonds into G7 countries, including the United States, now operates under a presumption of guilt until proven innocent, which is unusual."*
>
> *–Martin Rapaport*

The evolving nature of sanctions adds further uncertainty to the diamond trade, impacting market dynamics and supply chains. This situation is precarious because while governments claim to regulate the diamond industry for ethical reasons, their true motives often prioritize national interests. There are likely to be those who will exploit the chaos in the Russia-Ukraine conflict, seeking to profit from these regulations.

For instance, there's speculation about the US government's motives behind certain actions, such as using the term "diamond origin" instead of "diamond source," potentially to appease India for strategic reasons. Meanwhile, Belgium is leveraging its G7 status to redirect rough diamond trade through its borders, aiming to reclaim trade from Dubai and penalize Russia.

"Whether it's US appeasement of India, Belgium trying to claw back the rough trade from Dubai, or G7 trying to punish Russia, one thing should be clear, governments are political entities not moral or ethical authorities. They do what is in their best interests. Period."

–Martin Rapaport

Trade organizations play a vital role in engaging with regulators and advocating for the interests of the diamond industry amid evolving sanctions regimes. By fostering dialogue and collaboration between industry stakeholders and government agencies, these organizations seek to address regulatory challenges and ensure the continued viability of the diamond trade.

"We cannot and should not assume governments work in the best interests of the trade. It's not that they are evil, although some are. Even when their interests are aligned with the trade, the regulators make well-intentioned mistakes because they do not understand the diamond business. Even in the best case, government regulators are elephants in our china shop."

–Martin Rapaport

CONFLICTING INTERESTS AMONG TRADE ORGANIZATIONS

While the importance of trade organizations for the diamond industry is indisputable, their effectiveness is sometimes hampered by conflicting interests among their members. For example, the certification of diamonds by organizations like the Kimberley Process (KP) can be problematic, given the involvement of governments with varying ethical standards. Rapaport argues that trade organizations are overly reliant on the KP despite the alarming fact that it legitimizes and certifies both blood and Russian diamonds. Some of the more influential trade organizations like the World Diamond Council (WDC) then throw their support behind the KP, influencing all of their sub-organizations to do the same. So while they do play an important role for the industry, trade organizations can also work against the industry's best interests.

In light of these challenges, the focus should be on the US diamond market, which accounts for over 50% of global diamond imports. The US should assert its dominance in setting diamond trade regulations, prioritizing the interests of diamond buyers over suppliers. This approach ensures that regulations do not unnecessarily harm the US diamond and jewelry trade.

HANDLING SANCTIONS THE RAPAPORT WAY: THE RAPAPORT US DIAMOND PROTOCOL

In response to the challenges posed by sanctions, industry stakeholders are advocating for clearer guidelines and standards to govern the trade of diamonds in compliance with sanctions regimes. To this end, the Rapaport Group proposes the Rapaport US Diamond Protocol (see Appendix 1, below.) This protocol aims to guide the implementation of regulations governing diamond importation and trade within the US It emphasizes the importance of ensuring that regulations do not hinder the diamond trade.

The position of the Rapaport Group is to focus on the US market for polished diamonds. US regulations can, should, and will dominate diamond trade regulations, as the US imports over 50% of the world's polished diamonds.

> *"It's not that we don't recognize that there are other organizations and countries with their own legitimate or illegitimate interests, and the power to implement their own regulations. It's that we believe, since US money funds the diamond trade, it is our responsibility to use our market power to ensure the legitimacy of the US diamond trade."*
>
> *–Martin Rapaport*

Furthermore, they assert that it is in the best interests of the entire diamond trade to prioritize the interests of diamond buyers over diamond suppliers. It is a clear case of basic business principles - if there is a supply with no demand, the diamond business will deteriorate.

A key feature of the US Protocol is that once diamonds have been imported into the US or are in the US, there are no restrictions on their trade.

THE PATH OF SUCCESS:
PROACTIVELY CONFRONTING CHALLENGES

The current state of the diamond industry is precarious, facing the convergence of two formidable forces: synthetics and sanctions. This perfect storm signals a pivotal moment, demanding a radical reimagining of the industry's landscape. The diamond trade must adopt proactive measures to safeguard its future viability, recognizing and responding to the imminent dangers at hand.

As the markets for natural and synthetic diamonds diverge, the industry must confront the reality of synthetics claiming a substantial share. However, amidst this shift, synthetics produced sustainably offer an ethical alternative to diamonds of dubious origins. To appeal to the discerning Gen Z consumer base, the diamond trade must prioritize ethical practices, leveraging US sanctions as a mechanism to ensure the responsible sourcing of diamonds.

Acknowledging that natural diamonds inherently symbolize conspicuous consumption, strategic marketing efforts can enhance their appeal and drive demand. High jewelry brands exemplify the potential of imbuing natural diamonds with emotional value, thereby justifying premium prices and bolstering sales.

While natural diamonds may not compete with synthetics on price alone, US retailers and polished diamond dealers should embrace the notion of charging premium prices for ethically sourced natural diamonds. By emphasizing the intrinsic value and emotional resonance of natural diamonds, the industry can carve out a distinctive niche in the market, appealing to consumers' desire for authenticity and sustainability.

In essence, the diamond trade stands at a critical juncture, compelled to navigate the complexities of evolving consumer preferences, ethical imperatives, and regulatory frameworks. By embracing innovation, ethical integrity, and a strategic pricing paradigm, the industry can transcend the current challenges and forge a resilient path forward.

APPENDIX

THE RAPAPORT US DIAMOND PROTOCOL

October 31, 2023

Section 1.

All diamonds imported into the United States will require the following declarative statement by the importer and exporter:

"To the best of my knowledge the diamonds being imported have not been sourced from any US sanctioned entity."

Note: "sourced" diamonds include diamonds purchased from a sanctioned entity that have been substantially transformed by non-sanctioned entities. This includes diamonds purchased from Alrosa and manufactured outside of Russia.

US Customs or another designated government authority may maintain a list of companies allowed to export or import diamonds into the US.

Section 2.

In the event the US government wishes to implement a tracing capability for the import of diamonds into the US, the following protocols should be implemented:

1. All diamonds imported into the US shall have a unique US Blockchain Identification Number (USBIN) that links to the following information related to the import: name of blockchain; name of mining company; name of diamond manufacturer; import carat weight; import US$ value; invoice trail of diamonds from mine to importer, listing the names of all companies that have transacted the diamonds.

2. The USBIN must be prominently displayed in a clear tamper-proof sealed bag containing the diamonds. For the purpose of import, the blockchain information will be restricted to government auditing entities.

3. All diamonds already in the US may be entered into a government-approved blockchain and assigned a USBIN by the company exporting the diamonds from the US. Such diamonds may be reimported into the US using the USBIN.

4. It is the responsibility of US government designated entities such as US Customs and/or Office of Foreign Asset Control to audit and approve acceptable diamond blockchains, as well as to designate entities that are allowed or not allowed to be included in the USBIN supply chain.

Once polished diamonds are in the US, there are no restrictions on their trade or statements required on any invoices.

Other countries, such as members of the G7, may or may not accept the US Diamond Protocol and US-USBIN for the importation of diamonds into their country.

The threat of government sanctions is real and urgent. The trade should support the "Rapaport US diamond Protocol" by registering at Rapaport.com/sanctions. 780 members of the trade have already done so.