

Defining Economic Substitutes in Each Value Chain Segment

Where we take strong exception with the positions taken by the new DPA is the confusion between competing products and substitute products.

A substitute product is something that can perform the very same function as the product that the industry produces. When a couple gets married and they exchange their vows with man-made diamond jewelry, that is the classic example of an economic substitute, and that is exactly what is happening. For the producers to fight the reality of substitutes requires an entirely different strategy and a different way of thinking, and yes, it may require a lowering of rough prices.

The producers – and an overwhelming majority of the industry (myself included) – would like to have seen synthetic diamonds emerge as an entirely different product, with marketing outside of the diamond-jewelry marketing chain, something akin to Swarovski crystals in dedicated Swarovski stores. However, one must now realize that this is wishful thinking.

Ben Janowsky echoes something we said some years ago: “In a world with rising demand and declining production of naturals (especially middle to better quality stones, [another tipping point] will occur when man-made diamonds are ubiquitous, and the wholesalers and retailers will neither want to, nor be able to deal with the job of guaranteeing the use of natural stones. That will become next to impossible. **Therefore, everyone will simply say that all these stones are ‘diamonds’ and that some or all are natural, some or all are man-made diamonds. The diamond world, at that moment, will change profoundly. A paradigm shift we will call it, and one with many implications,**” concludes Janowsky.

Whether indeed natural and man-made diamonds will all become simply “diamonds” with the origins becoming irrelevant, I wouldn’t know. However, in the smaller goods, this is already happening – and it seems to have gained acceptance. In the larger goods, the so-called “undisclosed synthetic diamonds,” either as stand-alone parcels or mixed with natural diamonds, are loudly condemned, and organizations solemnly pledge “zero-tolerance” to this seemingly fraudulent behavior.

In practice, however, one has yet to see anywhere in the value chain where those engaged in these practices have been ostracized or faced sanctions. If anything, the over-priced natural rough seems to have given some impetus to mitigating losses by mixing naturals with lower cost synthetics.