

Long Memory, Short Memory, Amnesia....

The Wall Street Journal and other press cite the press release in which the **Diamond Producers Association (DPA)** calls itself “the first ever international representative organization to be formed by some of the leading diamond producers....” **That “first ever” phraseology is an interesting way to rewrite history.**

Until not so long ago virtually all of these major producers – De Beers, Rio Tinto, Alrosa, and (then) BHP Billiton did belong to a quite exclusive representative organization called the **Central Selling Organisation (CSO)**, later renamed the **Diamond Trading Company (DTC)**. All of the DPA objectives of “maintaining and enhancing consumer demand for and confidence in diamonds” were part of the remit of the CSO – and the activities were partly financed by the 10-13% discount the producers willingly lowered the price of the rough diamonds sold to the CSO.

Until the turn of the century, these producers – representing well over 80% of global production – operated as a monopolistic cartel. When governments forced a change in what then had become quite an illegal business organization, and legal challenges were mounting, the diamond industry became an oligopoly – a market dominated by a few large suppliers. Their “legality bonus” was instant. **The mines immediately secured even better rough prices as some of the former CSO’s activities (such as generic advertising) were dropped, while other functions were charged separately and additionally from their clients (such as Value Added Services).**

Miraculously, rough prices moved in tandem – at least when they were rising. Looking at the total created diamond product wealth (some \$23 billion annually expressed in Polished Wholesale Prices (PWP) last year), around the turn of the century mining companies would collect 60% of the total revenues. This has gone up (in a fluctuating manner) to some 75% today. Clearly, the post cartel days did not increase rough supply competition, did not reduce selling prices, and did not lower profits for the oligopolistic mining structure.

The move from a monopolistic structure to an oligopolistic structure, enabled producers to have the best of both worlds; all the benefits, without the obligations. The sense of “responsibility” for the downstream sectors – a self-imposed custodian role – was also, very demonstratively, removed. **Will the Diamond Producers Association provide benefits to the midstream and downstream sectors? Is it a partial return to the past? Time will tell.**