

A large, faceted diamond ring is the central focus of the image. The diamond is cut in a classic round brilliant style, showing numerous facets that catch the light, creating a complex pattern of highlights and shadows. The ring's band is partially visible, appearing to be made of a dark metal. The background is a dark, gradient blue-grey, which makes the bright, multi-faceted diamond stand out prominently.

# **The International Diamond Cartel**

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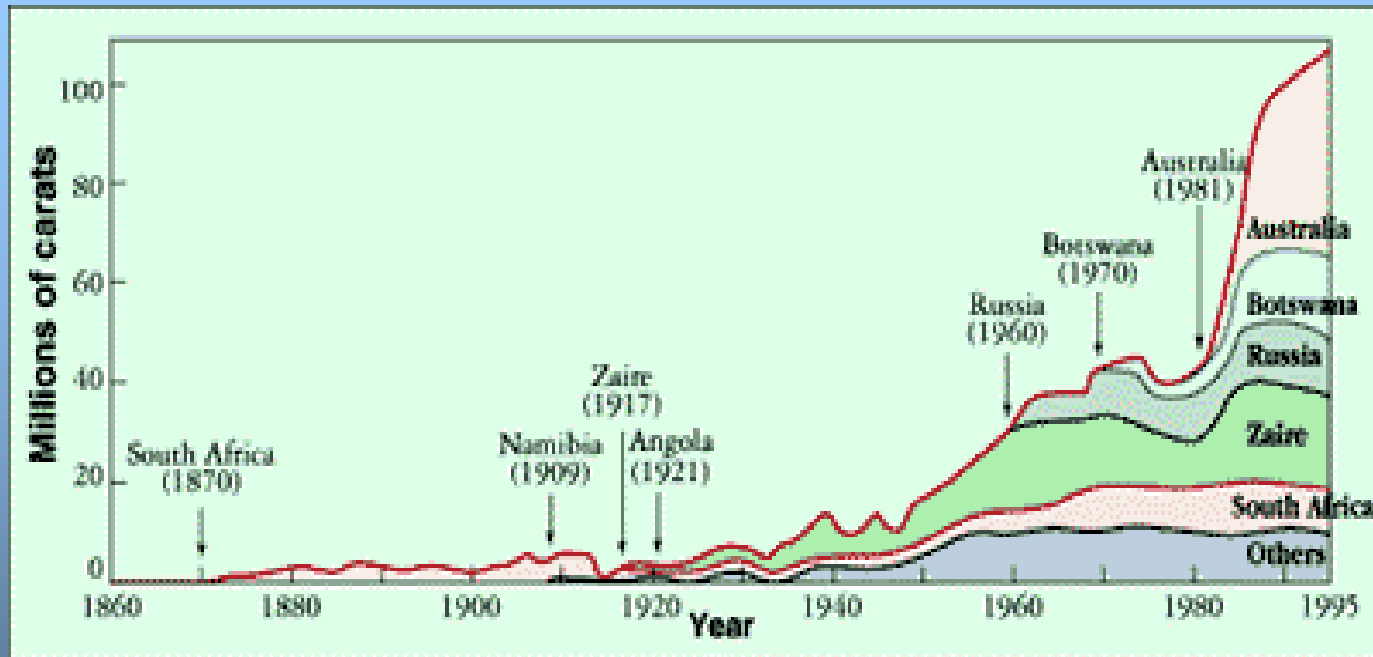
# Overview

- ◆ Few facts about diamonds
- ◆ History of the cartel
- ◆ How does the cartel work?
- ◆ The cartel's key characteristics
- ◆ Techniques by which the cartel is enforced
- ◆ Problems the cartel faces
- ◆ The cartel's future

# Few Facts

- ◆ Diamonds are in fact very abundant and cheap to produce and in the absence of the diamond cartel would be low in price
- ◆ In order to be able to control the supply of diamonds and to keep the artificially high prices, the diamond cartel aims to maintain strong monopoly position

# The Main Diamonds Suppliers



# History of the Cartel

- ◆ Until the late 19<sup>th</sup> century - diamonds were extremely rare (found only in India and Brazil)
- ◆ In 1870 – huge diamond mines were discovered near the Orange River in South Africa. This however meant a threat to the few diamond producers who felt that due to the large supply, diamonds will become a commodity instead of a luxury item

# History - Continued

- ◆ In 1888 – De Beers Consolidated Mines was incorporated in South Africa by the suppliers in order to secure high market prices of diamonds. At its beginnings, the diamond cartel successfully controlled the worldwide supply of diamonds by regulating mine output and by buying exclusive mining rights from African nations
- ◆ By the beginning of the 20<sup>th</sup> century - De Beers controlled 90 percent of the international diamond trade

# History - Continued

- ◆ In 1930's – however, demand for diamonds was steadily declining and as a result, the 29-year-old son of the founder of De Beers Harry Oppenheimer and his advertising agency N W Ayer came up with an advertising strategy that would target young men buying engagement rings and instill in them the idea that a diamond ring was **the only acceptable declaration of courtship.**

# The Success of the Cartel

- ◆ By 1981 – De Beers had proved to be the most successful cartel arrangement in the sphere of modern commerce. For more than a half century, while other commodities, such as gold, silver, copper, rubber and grains, fluctuated wildly in response to economic conditions, diamonds continued to advance upward in price each year
- ◆ Currently, De-Beers controls two-thirds of the \$7 billion yearly trade in uncut diamonds and owns half the producing mines



# Market Characteristics Favorable to Cartelization

- ◆ Small number of significant suppliers
- ◆ Rigorous barriers to entry
- ◆ Availability of few substitutes
- ◆ Durable, easy to store product
- ◆ Demand for diamonds is relatively price inelastic

# How does the Diamond Cartel Work?

- ◆ The corporation DeBeers mines majority of the world's diamonds and persuades other diamond miners to market their diamonds through DeBeers London-based Central Selling Organization (CSO), which then grades and sells rough diamonds to cutters and dealers for further distribution
- ◆ As a result, the CSO processes over **80 percent** of the world's diamonds. It regulates the supply of diamonds in the market to achieve price stability, earning DeBeers a high price-cost margin

# Key Characteristics of the Diamond Cartel

- ◆ Each year, DeBeers determines the total amount of diamonds it plans to sell in the market; each producer is guaranteed a fixed percentage of total output
- ◆ Consequently, De Beers market those diamonds through the CSO
- ◆ Producers, are in turn, charged a handling and marketing fee, ranging between 10 and 20 percent

# Why don't Other Mining Companies Sell Diamonds Directly in the Market?

1. The current cartel structure is **beneficial to all mining companies**
2. **The fear of DeBeers retaliation**

*Ex: In 1981 Zaire, the world's largest supplier of industrial diamonds, announced it would no longer sell diamond through the CSO. Two months later, DeBeers flooded the market with diamonds. The price fell from 3\$ to 1.8\$ per carat. In 1983, Zaire requested the renewal of its old contract with DeBeers, under less favorable terms.*

# Problems of the Cartel

- ◆ In recent years, the diamond cartel has lost control of diamonds produced in several African countries (e.g. Angola & the Democratic Republic of Congo)
- ◆ Additionally, Australia's significant Argyle mine recently left the cartel
- ◆ DeBeers is also fighting to hold onto its monopoly rights to distribute diamonds produced in Russia, which holds 26% of known reserves

# Future of the Cartel

- ◆ An Israeli named Lev Leviev – who owns factories in Armenia, Ukraine, India, Israel and elsewhere challenges the De Beers Central Selling Organization. He seeks to channel stones directly to his own polishers at lower prices
- ◆ Inexpensive synthetic diamonds might in the future replace real diamonds and thus put an end to the De Beers dominance in the diamond business

... therefore

- ◆ The future of the cartel is not certain

Questions?