Diamonds are Forever?

For Americans born in the "third-American era" (post WWII) the idea of diamonds as a symbol of luxury, marriage and ultimate value may be almost a given. But what, and who, lies behind these concepts? Are they real or just a shiny mirage? Are diamonds actually scarce, or more close to a dime a dozen? Read these pieces on Diamonds and make your own decisions.

The Incredible Story Of How De Beers Created And Lost The Most Powerful Monopoly Ever

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For decades, **De Beers** has been the preeminent name in diamonds.

Thanks to a stockpile of the world's rough diamond supply, indelible marketing schemes and even negotiations with foreign governments for their diamonds, De Beers — owned by the Oppenheimer family since the 1920s — has been the most important name in one of the world's most lucrative businesses for almost a century.

But with recent news of the Oppenheimers selling out to fellow mining company Anglo American, it's time to look back at the billion dollar rise and fall of a monopoly that has crushed competitors and cash-strapped governments since the 1800s. Diamonds became a symbol of love thanks to De Beers, which is fitting, since De Beers became what it is today because of a love story: the love of money.

In the beginning, the diamond trade took place mostly in India and Brazil. With the discovery of diamonds in South Africa, the trade simultaneously took off and become much less profitable. Up until the mid-1800s, diamonds were a rarity and could be seen only on the hand of a monarch. But the diamond rush that began in South Africa in the second half of the 19th century flooded the market with diamonds, which, as any good businessman knows, kills demand. It would take some ingenious plotting and advertising to keep the diamond's reputation as intrinsically valuable and desirable, which is where De Beers comes in.

The story of De Beers starts with English-born businessman Cecil Rhodes, who broke into the diamond business in South Africa by renting water pumps to miners before buying diamond fields of his own. Rhodes, sensing he had ventured into an untapped market, bought up diamond fields, including one owned by two brothers named "de Beer." In 1880, he bought the claims of fellow entrepreneur and rival Barney Barnato to create the De Beers Mining Company.

The tendency in diamond mining is to combine with smaller groups to form larger ones. Individuals needing common infrastructure form diggers committees, and small claim holders wanting more land merge into large claimholders. Thus, it only took a few years for De Beers to become the owner of virtually all South African diamond mines. In 1888, De Beers Consolidated Mines, Ltd. was formed, creating a monopoly on all production and distribution of diamonds coming out of South Africa.

De Beers took on many forms around the world as its influence in the diamond trade grew. To control supply and demand—and thus, prices—Rhodes created distribution arms through "The Diamond Syndicate," including "The Diamond Trading Company" in London and "The Syndicate" in Israel. Diamond claim holders and distributors joined up with De Beers because their interests were the same: create a scarcity of diamonds and high prices will follow. And while other commodities have seen price fluctuations over the years, diamonds prices have climbed since the Great Depression. By the time Rhodes died in 1902, De Beers controlled 90% of the world's rough-diamond production and distribution, but it was Ernest Oppenheimer who made the company an empire.

Oppenheimer, a rival diamond producer with his own production company (Anglo American Corporation, which will reappear later in the story) essentially bought his way onto the board of directors over the years. By 1927, he was chairman of the board. Under Oppenheimer, De Beers and its Central Selling Organization established exclusive contracts with suppliers and buyers, making it impossible to deal with diamonds outside of De Beers.

The structure of the business remained the same for much of the 20th century: A De Beers subsidiary would buy the diamonds. De Beers would determine the amount of diamonds they wanted to sell, and at what price, for the whole year. Each producer would then get a cut of the total output, and buyers would take their diamonds to be resold in places like Antwerp and New York. A worldwide decline of diamond prices in the 1930s led the Oppenheimer family to begin their world famous marketing campaign, "A diamond is forever."

Henry, son of Ernest, traveled to New York in 1938 to meet with advertising agency N. W. Ayer. The United States was seen as the next big market for diamonds, and a very effective game plan was formed to sell diamonds to Americans: convince them that diamonds equated love.

Consider gender expectations through these De Beers print ads:

"Think About It. Divorce Costs More" (Ring – 2002)

"No, your wife didn't pay for this ad. (But she did tell us what paper you read)" (Earrings – 2006)

"Imagine the favors you can call in If she gives you a tie" (Earrings – 2006)

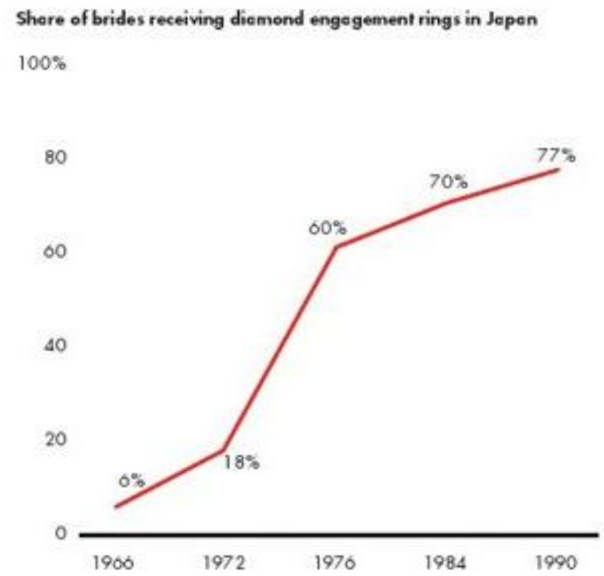
"Since the beginning of time, man has used two stones to start a fire." (Earrings – 2006)

"Getting rid of headaches since 1888" (Ring – 2002)

"Honey, would you and your friends like more beer and sandwiches while you watch the game?" (Earrings – 2006)

Through advertising, men were convinced that the size of the diamond in an engagement ring showed how much they loved their fiancée. Movie stars were shown wearing diamonds in the relatively new motion pictures. And the most effective piece of advertising came in 1947, with the creation of the tag line "A diamond is forever." This later become the company's official motto.

As a result of these campaigns, the number of brides receiving engagement rings, and diamond prices in the U.S., increased dramatically. De Beers forged new international markets using similar advertising campaigns in places like Japan, Germany and Brazil



Having conquered the United States by the 1960s, De Beers set its sights on new territories.

Japan never had a tradition of romantic marriage, making diamonds a tough sell for brides. And even by 1959, no imported diamonds were allowed into the country by the postwar government. But by using slick advertising, playing up diamonds as a symbol of the modern West, or a way to break from traditional Japanese norm, De Beers was able to build a billion-dollar-a-year industry. By 1981, almost 60 percent of Japanese brides wore diamonds, up from 5 percent in 1967.

When faced with a threat to their diamond monopoly, like one from the Soviet Union, De Beers simply bought up their inventory to maintain complete control. The discovery of diamonds in Siberia in the 1950s was a threat to the control De Beers kept over the diamond supply. Rather than compete with Russian diamonds, De Beers offered to buy almost everything that came out of Siberia — funneling all the world's diamonds through a "single channel." Even though Russian diamonds were smaller, their use in "eternity rings" and other miniature jewelry proved very successful, and allowed for a lucrative partnership between De Beers and the USSR.

The creation of "Debswana," a joint venture between the company and the nation of Botswana, meant a significant shareholding claim in De Beers by the African country. Diamonds from Botswana were considered valuable enough to give the government of the country a 15 percent share in De Beers in 1969. All rough-diamond mining and distributing is done by Debswana, making it the biggest non-government employer in the country. The deal is still in place today, and there's even talk of increasing Botswana's share to 25 percent.

But by the beginning of the 21st century, diamond-producing companies had enough of De Beers' monopoly, forcing a change in structure for the company. Numerous "revolts" against the De Beers cartel had occurred in places like Zaire and Israel over the years, which were mostly quashed by De Beers releasing stockpiles of diamonds similar to that county's product, driving down demand.

But more recently, countries with enormous stockpiles of their own, like Russia, Canada and Australia, have refused to cooperate with the single channel system.

These problems, along with issues of flat prices, forced De Beers to switch up the company's strategy. In the last decade De Beers has moved away from rough-diamond supplying and controlling the entire industry, instead focusing on promoting its own brand of diamonds and retail stores. De Beers continued to post profits into this year, as the number of retail stores increased worldwide.

De Beers reported a 74 percent increase in profits in the first half of this year alone. And the number of De Beers stores worldwide has risen from just one in 2001 to 39 in 2008, with 17 in Asia alone. Despite its high earnings and a lucrative transformation, in November De Beers ended its 80 year stranglehold on diamonds by selling a majority ownership to Anglo American plc

Anglo American, which previously had a 45 percent stake in the company, bought the De Beers Groups' 40 percent share for $5.1 billion in cash. Anglo American, previously started by Oppenheimer, will take over De Beers from that very same family. As for the reason of the sale: apparently, there is no one in the Oppenheimer family that wants to continue in the diamond business. And yet, the De Beers empire marches on, opening their third store in mainland China on December 14th

A 55-square meter De Beers Diamond Jewellers store opened at the Times Square Mall in Dalian, China just days ago. According to the company, this opening follows the success of the two other De Beers stores in the country. Although the people who made De Beers the world's most powerful monopoly are no longer involved, the company itself will continue to be a billion-dollar business.

Five myths about diamonds

By Tom Zoellner
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Diamonds, the ads say, are forever. Whether or not that's the case, diamond jewelry is a powerful symbol of status and love, and a $72 billion-a-year retail business worldwide. Diamonds can also be a key source of funding for violent conflicts in Africa. A series of wars bankrolled by "blood diamonds" in the 1990s prompted the United Nations to pressure De Beers and other jewelry industry giants to set up a program known as the Kimberley Process Certification Scheme to track the origins of each stone and assure customers that their diamonds are free of the stains of war and misery. But late last month, a four-day Kimberly Process meeting in Tel Aviv foundered over the question of whether to approve the export of diamonds from the Marange fields of Zimbabwe, where torture and murder go unpunished and profits fund the repressive party of President Robert Mugabe.

How did these glittering shards of compressed carbon become such a profitable business in the first place? The answer, it turns out, is complicated -- and many of the things we believe about diamonds aren't exactly true.

1. Diamonds are rare.

Although you won't stumble across a diamond while digging in your tomato garden, they are far more common than their cost suggests. The big gem companies aggressively control the supply that arrives at market, creating artificial scarcity and high prices.

This practice was born in the diamond fields of South Africa in the 1880s, when Cecil Rhodes, the chairman of De Beers Consolidated Mines, discovered that he could inflate prices at will simply by locking up the rights to every diamond mine he could find. His successor, Ernest Oppenheimer, developed a complex network of wholesalers that gave De Beers effective control of up to 90 percent of the world's rough-diamond trade through most of the 20th century, as the company hoarded stones in basement vaults and doled them out strategically.

The Oppenheimer family's iron grip on the global supply chain fell apart in the 1990s when Alrosa, a diamond company owned by the Russian government, and the Argyle Diamond Mine in Australia began to sell their stones independently. De Beers's share of the rough-diamond trade is now 40 percent and falling.

Interestingly, though, the end of the De Beers monopoly has not led to aggressive underbidding: Everyone involved seems to recognize that price wars could kill the diamond goose. And stockpiling still happens. Although a healthy 163 million carats or so are mined annually, a certain amount of that yield is withheld from the marketplace. Alrosa, in particular, sold a substantial percentage of its diamonds to a metals bank in 2009 rather than risk flooding the market in shaky economic times.

2. We've solved the problem of "blood diamonds."

Not really. The Kimberley Process has always been more like a low brick wall than a prison fence. It soothed the public and stopped the most timid criminals, but those who want to skirt it can easily find a way. The most frequent scam is to move diamonds across a border and have them relabeled. To take one example, the human rights group Partnership Africa Canada has shown that Guinea exports far more diamonds than it could hope to produce. The stones are coming from somewhere else, highlighting the strength of smuggling and money-laundering networks that could be used to transport blood diamonds should another war break out in the region.

In some cases in which smuggling was too blatant to ignore -- as in the Republic of Congo, the Ivory Coast and Venezuela -- the Kimberley committee took years to respond. When it finally investigated, it did so with an eye toward appeasing the host governments rather than cracking down on core problems.

Another weakness of the Kimberley Process is that it does not have a comprehensive definition of "conflict." It has thus ignored multiple outbreaks of violence and pillaging in African diamond fields because there was no "war" -- in the classic sense of one state fighting another or a state vs. organized rebels.

The Kimberley rules certainly never anticipated a situation like the one in Zimbabwe. The Marange diamond fields, containing some of the most plentiful deposits in the world, were discovered in 2006; soon afterward, Mugabe's soldiers moved in with helicopters. According to Human Rights Watch, they massacred at least 200 independent miners, then set up shop using conscripted laborers, including children. Because Kimberley has no provisions for what happens when a sovereign government kills its own citizens, it seems likely that "Mugabe diamonds" will be hiding in the global supply chain for some time.

3. Diamonds have long been symbols of love and marriage.

The tradition of the diamond engagement ring was largely concocted in the 1930s by De Beers's ad agency N.W. Ayer & Son -- the same Madison Avenue shop that would later craft the wildly successful slogan "A diamond is forever." Through magazine advertisements and Hollywood product placements, American customers were sold the idea that even a man of modest means must give a diamond to his betrothed, just as kings and aristocrats had done in several examples cherry-picked from European folklore.

In fact, diamonds historically served as tokens of statist privilege more than anything so frilly and ordinary as love. De Beers's appeal to royal fantasies (and, more subtly, male fears of inadequacy) nonetheless caught the American public's imagination, as did the notion that a groom is supposed to spend two months of his salary on a rock. This, too, was an invented custom. It was also flexible: In ad blitzes elsewhere, British customers were told to spend one month's salary, while the Japanese were told to spend three.

4. People will always buy diamonds.

Setting up a tollbooth at the gates of marriage was a brilliant move. But even so, history shows that diamond sales tend to mirror general consumer spending on luxuries. When hard times come along, diamonds are among the first items scratched from a shopping list. After the market spasms of 2008, diamonds had their worst year in decades, and even the resilient bridal market suffered. Total sales reportedly plunged 20 percent in the United States, and this spring, De Beers slowed work at its mines.

This isn't the first time that a recession spurred some reconsideration of the diamond ethos among consumers. The Asian currency crisis of 1997 tore a hole in the Japanese diamond market: Nearly every bride in that nation used to go to the altar wearing a diamond engagement ring. That's no longer the case today.

Bad press on humanitarian issues seems to have had a lesser effect, though. Even after the December 2006 release of the movie "Blood Diamond," a Leonardo DiCaprio action-adventure that paints a harrowing portrait of the African diamond trade, jewelers reported a reasonably good Christmas season.

5. The famous Four C's are the best markers for determining a diamond's value.

This handy mnemonic -- color, cut, clarity and carat -- was developed in the 1940s by the Gemological Institute of America, still the world's premier diamond-grading company.

Lore holds that every diamond is unique and a work of nature's art. But this idea was intimidating to American customers who wanted a firm readout of a diamond's worth before buying it. De Beers therefore loved the Four Cs, and the company sent speakers on a promotional tour to explain these standards as if they had been observed for centuries.

But when it comes to the most popular kind of diamond -- the round, brilliant-cut stone that is a staple of engagement solitaires -- a key factor embedded in the cut rating is likely to have a big impact on value. The "depth percentage," the relationship between the stone's top and the angle of its slanted sides, can make a diamond's glitter a little more spectacular thanks to the physics of light. The sweet spot? A ratio of 58 to 60 percent. Too many buyers of stones of less than two carats get hung up on minor gradients of color and clarity, which are invisible to the naked eye and meaningful only at the cash register.

For those who don't plan to routinely ogle their stone under a microscope, an easier formulation would be the Two S's: size and sparkle. The resale value of a diamond drops between 30 and 50 percent the moment you walk out of the store with it (a sixth myth is that they are good investments; they aren't) so you might as well enjoy its illusory light while you can.

Tom Zoellner is the author of "The Heartless Stone: A Journey Through the World of Diamonds, Deceit, and Desire."