REMARKS OF MAURICE TEMPELSMAN AT WDC AGM IN NEW YORK, SEPTEMBER 8, 2016

- Mr. Andrey Polyakov, President World Diamond Council
- Mr. Stéphane Fischler, Vice President of the WDC
- Ambassador Vitaly Churkin, Russia's Permanent Representative to the United Nations
- Mr. Robert Owen-Jones, Assistant Secretary of Australia's Department of Foreign Affairs and Trade, and Vice Chairman of the Kimberley Process
- Mr. Andrew Keller, Deputy Assistant Secretary of State for Counter Threat Finance and Sanctions
- Mr. Ronnie VanderLinden, President of the US Jewellery Council
- Members of the World Diamond Council
- Distinguished Guests

Thank you for honoring me with the opportunity to make some remarks at this important meeting, and to do so in a city that has not only been long associated with the diamond industry, but that in so many respects symbolizes our age—an age of unprecedented possibilities as well as unprecedented challenges.

New York is not the city of my birth. I came here as a child with my family in 1942, in flight from another world that was imploding under the weight of the past. In New York my family, like so many others who have come before and since, was given the opportunity to reinvent its future.

It seemed miraculous at the time and with the hindsight of nearly 75 years seems even more so on a personal level. But through a broader lens those same 75 years can be seen as a time when the world as a whole has become more like New York. We have come to live in an era of unique human agency—an era in which, both individually and collectively, we have an extraordinary power to reshape the course and narrative of our lives.

As an optimist, I view this expanded human agency as one of the great achievements of history. But I am also a realist, recognizing that the power to shape events can be used not only for better, but also for worse. Indeed, the very forces that empower us---advances in technology and communications, the adoption of democracy as the benchmark for political order, the globalization of markets—introduce into our systems of human governance new sources of instability and new avenues for the darker angels of our nature to exact their toll. For what happened here, in this city, almost 15 years ago to the day, New York has come to symbolize, too, the perils of this age, as well as the courage and the fortitude to live through and beyond such events.

I hope you'll forgive this philosophizing at the outset of remarks that are meant to focus on our diamond industry; for to me, the broader context bears directly on the WDC's special position within that industry. The diamond business, perhaps more than others, can tend toward the insular, toward immersion in the cocoon of our product and its particularities. The WDC does not have this luxury. It was born of a need for *engagemen*t with the larger world---with the social and structural realities in which our industry is situated, and on which its fortunes ultimately depend. The Kimberley Process was a watershed, connecting the diamond trade consciously to the currents in human affairs that, however much we may try and narrowly compartmentalize them as "political", in fact envelop us all.

As the WDC's experience over the past decade attests, this kind of engagement is never easy or straightforward. My own view is that an institution's willingness to take on uphill struggles is a measure of its responsibility and moral seriousness, and I commend the WDC for carrying on with the task. The pursuit of progress is, I believe, a necessarily incremental process—perhaps paradoxically, all the more so in the complex new world I have just described, where both authority and attention tend to be diffused and where the sheer pace of information acts as a centrifugal force. We are of course in the middle of America's quadrennial election ritual where, rhetorically, change for the better is cast as an easy thing—as simple as pulling the lever for some ostensibly "indispensable" Presidential candidate. My old friend Governor Mario Cuomo, was much closer to the truth when he famously said that "one campaigns in poetry but one governs in prose". (though I must readily confess that in the current campaign the poetry is somewhat dissonant as well).

Which is not to say that an overarching vision is unimportant. To the contrary—when we accept that increased information bears no necessary relation to increased wisdom; that there will always be unintended consequences to our actions; that mistakes will inevitably be made---then, and especially then, it becomes vital that we retain an overall sense of direction. We ensure progress by recognizing when new obstacles arise; and by recalibrating our course to surmount those obstacles.

It is in that spirit—of seeing clearly what our problems are, thereby enabling us to chart a broad course through them—that I want to address here, with the leadership in this room, what I view as the main structural challenges facing the diamond industry at this moment. By "structural" I mean those forces that are quietly changing the ground beneath us, even as our attention inevitably is drawn elsewhere, to the more visible drama of cyclical ups and downs in our market. Of course these surface cycles matter to all of us engaged in an intensely competitive global trade; but we ignore what lies underneath them—and may even actively be concealed by them—at our peril.

The first structural challenge is the shift in power from upstream to downstream—from the production end of the spectrum to the consumption end. This is of course a trend in all markets, as technology, competition, and social mores place ever more discretionary choice in the hands of consumers; but it is particularly jarring in our industry. One reason is that, historically, pricing power was so intensely concentrated upstream, and for so long, that the entire culture of the supply chain was molded by the assumption of a benign, relatively predictable pricing curve. It should be obvious that this mold is incompatible with an era in which retail demand is the ultimate arbiter of our product's fate, and in which it must compete with so many others for the attention and discretionary dollars of a new generation of consumers spoiled for choice. And yet we have seen, consistently in the recent past, a resistance to this new reality, in the form of upstream pricing policies that have pushed the supply chain as a whole into crisis.

Now I would not presume to lecture my friends upstream on how to run their business; and I know there is a venerable tradition in economics that sees crisis and "creative destruction" as a means of rationalizing markets by driving the weaker players out; but I think we need a more potent collective understanding of the implications of these crises for diamonds. To begin with, because of the inherent nature of our product, there is a danger that creative destruction will not favor the strong over the weak as much as it will favor those willing to cut ethical corners over those unwilling to do so---an unintended consequence which all in this room, believers as we are in the importance of supply chain integrity, would recognize as disastrous. Moreover, and relatedly, no one knows what the impact of acute price volatility—sharp rises reversed by sharp falls in times of repeated crisis—would be on the psychology that underpins our product. In the diamond industry, everyone has a "long" position—from the producers whose in-ground reserves take years to bring to account, to the manufacturers and intermediaries who buy for cash and hold and extend inventory on credit, to the end consumers who believe they are buying a "forever" product of timeless sentimental and monetary value. Have we applied our collective minds sufficiently to the risks of that psychology being turned on its head? I don't believe so.

The second structural challenge I would like to raise also stems from something inherent in our product—in this case its unique combination of value, portability, and relative concealability; a combination which makes diamonds the closest substitute for cash in a world where the movement of cash is increasingly monitored and regulated by the authorities of the G-8 nations. The fact that the principal force behind such monitoring and regulation is the United States, and that diamond transactions are denominated in this country's currency and thus must be cleared through the US banking system, only makes this development more poignant.

With an audience as attuned to the issue as this one, I need not belabor the importance or nature of this challenge. I would simply emphasize that heightened financial scrutiny is now a permanent fixture of our strategic landscape, driven by security concerns and thus surpassing in its staying power some of the older, more politically contingent concerns about tax evasion, corruption or even human rights. The combatting of terrorism has become an existential preoccupation of our time; and with "boots on the ground" an increasingly unattractive modality for many reasons, "following the money" will remain a principal weapon in our arsenal, alongside such other substitutes for traditional military intervention as drone strikes, intelligence sharing, and sanctions.

What this means for our industry is: no more black boxes, no more inscrutable transactions or markets where money can be laundered through fictitious operations or valuations. It doesn't matter that only the tiniest, remotest fringe of the diamond business may in fact be using these techniques to finance terrorism; the techniques themselves have to stop, not only because they are wrong but because they can no longer slip under the expanded radar of our security agencies.

And here I want to address those who govern the main diamond trading centers, particularly the newer centers which have aggressively pursued market share. I am all for competition, and for making the most of one's comparative advantage in such competition. But we must make sure the race does not become one to the bottom—to a lower standard of accountability and transparency. An "enabling environment" must not come to mean a place where the worst tendencies of our industry can find refuge, but rather a domain of best practise. I applaud those diamond trading centers that have squared up to this reality but remain concerned about others, because in today's world it takes only one weak link in the chain of integrity to expose our industry as a whole to systemic risk. Indeed, I believe that the signs of systemic damage are already evident, in the erosion of the diamond manufacturing and trading sector's financial base. I put it to you that the main reason established money-center banks have been exiting the diamond business in recent years is compliance risk—the risk that some of their clients may run afoul of the stricter AML/ATF regulations, and that the banks, who carry the front line burden of enforcing those regulations, will as a consequence suffer not only reputational damage but the imposition of harsh penalties wholly disproportionate to the returns they can expect from diamond financing. Thus, while I wholly endorse the moves by DeBeers and others requiring their clients to shore up their balance sheets by adhering to improved, auditable capital ratios, those moves alone will not be enough; for an industry such as ours cannot prosper on capital alone, without assured access as well to sustainable and credible sources of credit, and those credible sources will continue to hold back until our industry brings its operations wholly out of the shadows. The shadows I refer to cast their pall over what I see as a third structural challenge—namely, the emergence of synthetics as a permanent feature of the diamond market. There are differing views on whether the very existence of synthetics poses a mortal threat to the "natural" product; personally, I don't think it does—the story of natural diamonds, properly told, is strong enough to hold its own, although certain market segments are likely to yield ground to synthetics as the economics of laboratory production improve.

The larger threat lies in the misrepresentation of synthetic diamonds as natural ones. We have seen this practise already in the smaller sizes, where the relative cost of detection and policing is high—an example, perhaps, of the vise of economic pressure not leading necessarily to survival of the economically fittest but instead to an overall lowering of the ethical common denominator. In a similar vein, the potential for synthetics to bypass the various industry and regulatory mechanisms now in place to establish verifiable chains of custody for natural diamonds imperils the integrity and utility of those mechanisms as a whole. To take just one example, synthetics remain at this moment exempt from the stringent regulatory requirements imposed by the US Patriot Act on dealings in natural diamonds—so not only do we who deal in the natural product carry the greater legal burden, we are exposed to greater reputational risk from the actions or inactions of those who are relieved of that same burden.

Again, industry leaders such as the RJC, the GIA and DeBeers are to be commended for their efforts to combat the threat of synthetic non-disclosure, largely by ensuring that reporting, technology and other means of detection keep pace with the growing scope of the challenge. And yet again, I don't think that these industry self-help measures alone will be enough. There is a need to escalate the matter to the level of legal enforcement. This is no small task, for although all jurisdictions have consumer protection agencies (such as the Federal Trade Commission in the United States), these agencies have neither the same strategic impetus behind them, nor the same incentives for a shared, single-minded focus on the dangers at hand, that their counterparts in the intelligence and security services possess. When it comes to "following the money", the diamond industry lags behind the agenda of the G-20 nations; when it comes to synthetics, on the other hand, we may need proactively to bring those governments along, and indeed to help them understand how the two pieces of the puzzle fit together.

Ladies and gentlemen, distinguished guests: On that theme of constructive governmental engagement I want to bring to a close my summary of the three main structural challenges I see facing our industry, and also to explain why I have burdened your meeting with those challenges when, as I well know, you have others to address. As I noted near the outset, the WDC is a rarity—perhaps even unique--among industry bodies in that your mandate encompasses, indeed requires, a strategic dialogue with governments and other policymaking institutions that runs well beyond the industry's natural parochial focus. Some of that dialogue already touches on the issues I have raised; much of it does not.

It is beyond my remit to say whether the WDC is the right body to carry out the expanded conversation with governments that the three structural challenges require; but that some such conversation is necessary I have no doubt. Diamond producing nations have a strategic interest in the outcome of the first challenge, concerning pricing: the old upstream-oriented pricing models brought them relative stability of tax revenue and mining employment, but these benefits can no longer be counted upon and in any event may sit uneasily with their understandable push, now, to bring more of the diamond value chain within their borders. Both producing and consuming nations have a compelling interest in satisfactory management of the new global security architecture governing the flow of cash and cash-like instruments, including diamonds. And producing and consuming nations alike have a common interest—albeit for different reasons--in combatting fraudulent misrepresentation of synthetics as natural diamonds. Put another way: none of these challenges is capable of being fully resolved without some form of structured industry engagement with governments around the globe, and some form of industry leadership in helping initiate those engagements.

We have been at this kind of juncture before. It was nearly two decades ago that leaders of industry and government met in Kimberley to embark on a path to which the WDC owes its existence. It wasn't coincidental that that path began in a diamond-producing country, as it is those countries which had the most at stake then, and have the most at stake now. We who manufacture and trade will find a way to navigate, as nomads, through a new industry terrain, whether it be bleak or fertile; but for the mines, and the miners, and the economies they support, the difference between a bleak landscape and a fertile one can be existential. Many if not most of today's diamond mines could not withstand a structural decline in demand or prices. So the engagement with our producer partners must be renewed and refreshed, taking aboard issues that in my view have come to transcend those to which the Kimberley Process was addressed.

Beyond this theme of a new engagement, there is another embedded in my remarks which also bears singularly on the WDC and its mission. That second theme is accountability. Accountability in how prices are set; accountability in how diamonds are not only mined but also moved, valuated, accounted for and traded; accountability in whether they come from a lab or a mine. No industry body has done more in recent years than the WDC to light the candle of transparency in what had previously been darkness; it is a measure of my respect for your efforts, and your achievements, when I suggest that candle should now become a torch. And in this regard permit me in closing to make reference to the remarkable work of the outgoing President of your organization, Edward Asscher, following in the footsteps of the founding President Eli Izhakoff. As I proposed earlier, the willingness to engage in uphill struggle is a measure of moral seriousness, and a precondition to any kind of progress. No one has shown a stronger appetite for that kind of effort than Edward. I know that his work will be ably carried on by my friend Andrey Polyakov, who himself comes from one of those nations with strategic interests on all sides of the equation.

I thank you for your indulgence, and leave you with my best wishes for a successful Annual General Meeting.
