

CoverStory

A cut above the rest

WITH CHINESE BUYERS VIEWING SPARKLERS AS EVERYDAY ACCESSORIES, IT IS A BOON FOR RETAILERS

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in Hong Kong

For China Daily Asia Weekly

Rare was the Chinese bride in the 1990s who expected to adorn her left ring finger with a diamond. But by 2010, one in three was demanding a rock.

The shift is similar to the one experienced in the US in the 1940s that led to the creation of the largest diamond market in the world. Americans now buy more diamonds than any other people in the world, accounting for about 38 percent of the global market. But Chinese, not long ago indifferent to the stones, make up the second largest market in the world, buying up 10 percent of global production in 2012.

The emergence of a fashion jewelry segment in China that markets relatively cheap diamonds worth 30,000 yuan (\$4,802) or less is proving a boon for companies looking for new outlets. In a poll of Chinese consumers commissioned by British-Australian mining corporation Rio Tinto, pollster Ipsos found that Chinese consumers are increasingly comfortable buying diamonds.

According to Ipsos, Chinese no longer feel that owning a diamond is an exclusive privilege of the ultra rich. Rather, diamonds are increasingly seen as everyday accessories accessible to many.

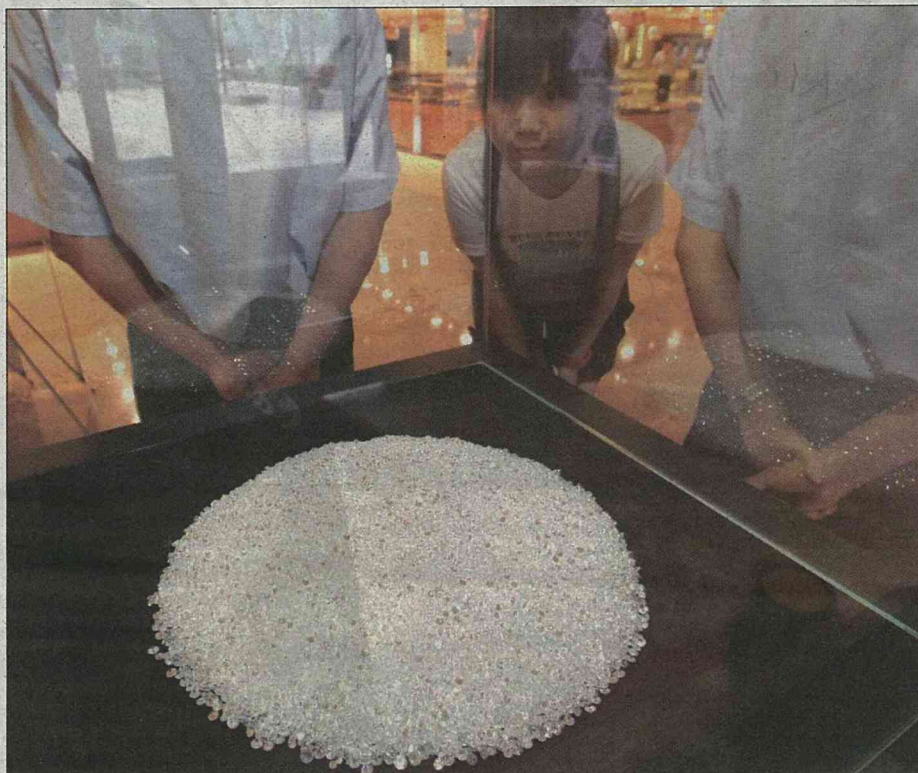
"These are important findings for Rio Tinto as we are accelerating our marketing investment in the Chinese diamond jewelry market," said Jean-Marc Lieberherr, general manager for sales and marketing at Rio Tinto Diamonds. "It is also good news for diamond manufacturers, jewelry designers, retailers and consumers."

Last year was a difficult one for diamond producers and distributors. For the first time in years, prices dropped. The economic slowdown in China coincided with a pullback among consumers in the US to hit at the trade.

The drop in prices came as most producers lowered their output. De Beers, the world's largest producer of diamonds now owned by mining giant Anglo American, said it produced about 27 million carats in 2012, down 14 percent from 2011 and 43 percent less than in 2008. The company plans to keep that level of production through 2013.

The lower level of production could help lift prices, which dropped 16 percent through last year while creating an opportunity for smaller players to fill the gap.

Even with the drop, producers and distributors are bullish. Many say the fall last year was an aberration rather



Diamonds worth \$16.5 million on display at a shopping mall in Beijing. Chinese consumers make up the second largest diamond market in the world, buying up 10 percent of global production in 2012.

er than the beginning of any kind of long-term trend. According to WWW International Diamond Consultants, prices rose by 20 percent per year between 2009 and 2011.

The prospects for growth, particularly in China, are significant.

Although diamond mining is not its primary business, Rio Tinto is the third largest producer in the world behind De Beers and Russia's Alrosa. All three are now working to penetrate the Chinese market either on their own or with partners. And all three have reached agreements with the largest jewelry company in the world.

This company, Chow Tai Fook, typifies the enormity and uniqueness of the Chinese market for diamonds. Listed in Hong Kong since 2011, Chow Tai Fook is an example of how much clout the Chinese consumer can wield.

"We have no intention, at least for 10 years, to open any (points of sale) other than (on the Chinese mainland), Hong Kong and Macao," said Chairman Henry Cheng in November 2011. In the third quarter of 2012, the company added 70 stores in smaller Chinese cities, even as sales dropped 11 percent in outlets open for more than a year. It now

has 1,700 points of sale in Greater China.

Despite the drop in sales last year, Chow Tai Fook has worked hard to secure a steady supply of stones.

"The greatest challenge for all diamond industry players is the scarcity of authentic natural diamonds," said the company's executive director Conroy Cheng.

At the end of 2012, it signed a two-year deal with Alrosa to secure a steady supply of stones. The agreement would see Alrosa supply rough diamonds and get access to the Chinese market.

"We believe this market has great potential in terms of the growth in diamond jewelry consumption as well as demand for rough diamonds," said Alrosa's President Pyodor Andreev.

For other international players, the emergence of the Chinese consumer eager to buy what might be called retail diamonds is key for future growth.

Tiffany, once focused almost exclusively on US retailers, now banks on Asia-ex Japan for almost a quarter of its sales. The economic slowdown in China pushed down sales towards the end of last year but the company remains bullish on the growth of the

market and plans to open new outlets to complement its existing 32 (and 55 in Asia outside Japan).

In a conference call, Tiffany's Vice-President of Investor Relations Mark Aaron noted that "the Chinese will continue to increase in importance as customers of Tiffany and other luxury goods purveyors".

At the same time, China is working to build up the necessary infrastructure to power the diamond trade. It is already the second largest importer of rough stones, which are polished and processed in large centers.

The up-and-coming financial center of Shanghai boasts both manufacturing of polished diamonds and a diamond bourse. Easy access to Hong Kong is also a boon.

Already an established diamond trading hub, Hong Kong now wants to become a rough diamond trading hub. "We have to promote and increase awareness of the benefit of trading in and through Hong Kong," says Lawrence Ma, president, Diamond Federation of Hong Kong (DFHK).

DFHK, he says, plays an important role in preparing Hong Kong traders to expand into the mainland market. A decade ago, DFHK established a diamond grading laboratory and

in 2009, with the National Gems & Jewelry Technology Administrative Center introduced a well-recognized diamond grading certificate in Hong Kong. These measures, Ma says, eliminated "unnecessary repeated shipments" between Hong Kong and the Chinese mainland.

In 2011, DFHK signed an agreement with the Shanghai Diamond Exchange. It has allowed Hong Kong trade to be updated on the rules and regulations of conducting business on the mainland and to share opinion, Ma says. In addition, Hong Kong hosts two major fairs to boost the trade: The Hong Kong International Jewellery Show organized by the Hong Kong Trade Development Council in March, and the September Hong Kong Jewellery and Gem Fair by UBM.

Last September, Chinese made up the largest single group of foreign visitors to the Hong Kong Jewellery and Gem Fair. The 13,412 visitors from the Chinese mainland represented a jump of almost 17 percent from the previous year.

For the time being, Chinese diamond miners are small fry compared to the giants but there are some signs that they might step up their operations. As the global supply of rough diamond is dwindling, it is opening the door for emerging Chinese mining companies with access to untapped mines in Africa and Latin America to step in and fill the gap.

In 2011, the supply from De Beers and Rio Tinto dropped 3 percent due to technical difficulties. Alrosa kept production stable but nevertheless, production that year was 124 million carats, compared to 177 million in 2005.

Miners like Anjin, a joint venture between China's state-owned Anhui Foreign Economic Construction Company, and Zimbabwe Mining Development Corporation, is stepping up operations in the controversial Marange fields in that country. Exports of diamonds from Zimbabwe have been allowed since 2011 after two years of dispute and Anjin planned to mine as much as 10 million carats in 2012.

In January 2012, the Liaoning Geology and Mineral Resources Exploration Bureau announced it had discovered a mine with a capacity of 1 million carats, the largest mine found in China in three decades. A smaller reserve was found in 2010 just 50 kilometers away.

These discoveries and increased access to a steady supply of diamonds from abroad guarantee there are enough shiny rocks to adorn tens of millions of fingers. It will be up to the retailers to reach the markets deep in the interior of the country.