

Israel's Diamond Industry

Celebrates 100 Years



Moti Ganz
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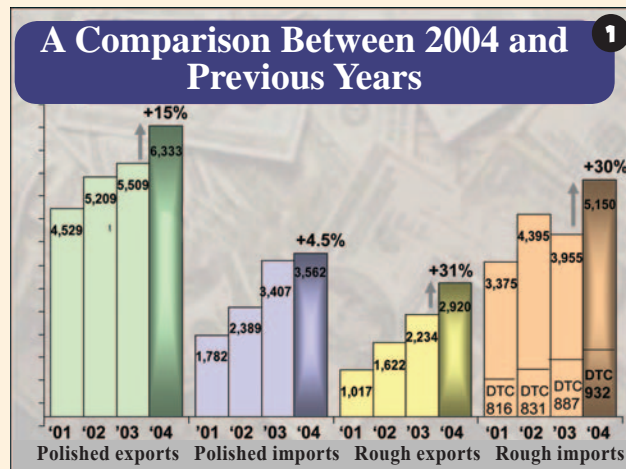
Background

Israel is one of the world's premier diamond processing and trading centers, with a turnover of approximately \$18 billion in 2004. The United States, the world's largest market for polished diamonds, imports over half of its polished diamonds from Israel.

Israel's diamond industry was launched at the Seventh Zionist Congress held in August 1905, when Belgian and Dutch Jewish representatives formulated the idea to train victims of the Kishinev pogrom in the diamond profession, to be practiced in Israel as part of the overall effort to rehabilitate the devastated community. 100 years have elapsed, and this review depicts the status of the Israeli diamond industry, which has prospered far beyond the founders' vision.

Turnover

The centrality of the Israeli diamond industry is measurable by its turnover in comparison with the global diamond industry, and in comparison with the Israeli market. Israel's rough diamonds



imports exceeded the \$5 billion threshold in 2004, and polished diamonds exports have reached a peak of \$6.3 billion, as illustrated in figure 1.

These figures are impressive, compared with the activity of the diamond industry on the global level, and in comparison with the Israeli market. For instance, in 2004, Israel's industrial exports, excluding diamonds, totaled approximately \$24.5 billion. Polished diamonds exports boosted Israel's total industrial exports to over \$30 billion, as illustrated in figure 2.



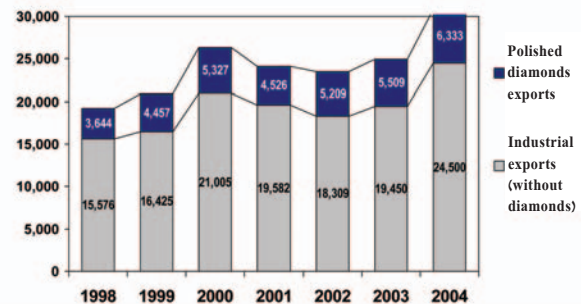
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Rough Diamonds

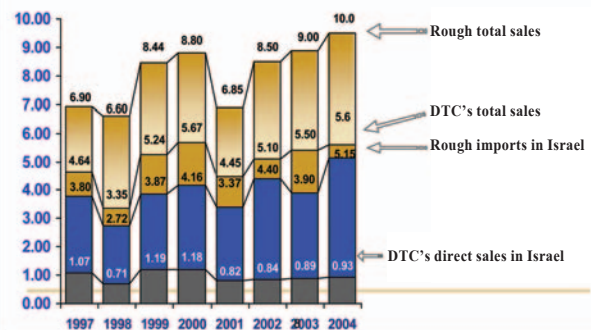
A supply of rough diamonds is a fundamental precondition for Israel's existence as a production center, and as a global diamond trading center. Diamond industry leaders have made tremendous efforts to develop sources of rough diamonds for Israel, both via

extensive independent measures and cooperation with the Israeli government. For example, in 2004, Israel imported almost half of the rough diamonds produced in various African countries, Russia and Canada, as well as direct supply from Diamond Trading Company Ltd. (DTC) – the marketing arm of De Beers, the world's largest producer of rough diamonds. Figure 3 illustrates the scope of global rough diamonds sales, as well as Israel's share.

Development of Diamond Export vs. Other Products' Export



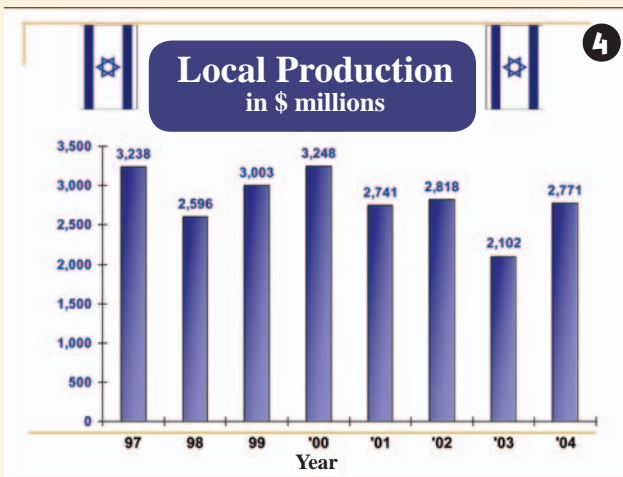
Global Rough Diamonds Sales



Local Production

Approximately 45% of Israel's polished diamond exports of \$6.3 billion (about \$2.8 billion) are processed and polished in Israel, while the rest are processed in overseas plants, because of lower overseas labor costs as a proportion of the final product. The polishing of smaller diamonds, in which the cost of labor is significant, is carried out in countries with significantly lower labor costs than Israel's, such as India and China.

Figure 4 illustrates local diamond polishing as a proportion of



total polished diamond exports.

One of the main objectives of Israel's diamond industry leaders is to expand local production at the expense of foreign production, by investing in technological development that will give Israel a comparative advantage over other production centers.

These investments have exceeded \$1 million a year in recent years. The Israel Diamond Institute (IDI) encourages these investments through Israel Diamond Technology, a fully owned subsidiary of the IDI.

Marketing

In addition to technology support, the IDI carries out a broad range of activities with the goal of advancing and promoting the status of Israel's diamond industry. These activities are designed



to expand marketing capabilities, as well as the scope of polished diamond exports. Export destinations in 2004 are detailed in figure 5.

Diamond Industry's Credit

Credit is the fuel propelling Israel's diamond industry. Five banks are active in the diamond industry: Union Bank of Israel and Israel Discount Bank, each hold a third of the industry's credit volume. Bank Leumi, First International Bank of Israel and United Mizrahi Bank share the remaining third between them.

In 2004, credit to Israel's diamond industry totaled approximately \$1.8 billion. In the first half of 2005, the credit level stabilized at an annualized \$2 billion. The moderate growth in credit does not keep pace with business expansion. Industry leaders have therefore been diligently seeking additional sources of credit. This will be accomplished by obtaining credit from an additional Israeli or a foreign bank, or by utilizing an alternative credit system, such as the non-bank credit companies operating under the auspices of insurance companies.

Multiyear indicators such as "level of financing" or "financing intensity", show the industry's financial resilience on the one hand, but also the erosion of available bank credit to the diamond industry on the other.

