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Martin Rapaport: Bomb Threats, Diamonds and Bullet Proof Vests

In rented cars and a bullet-proof vest, Martin Rapaport has taken a perilous route to becoming the diamond industry's most influential body. Every week his Rapaport Group publishes the 'Rap List' of diamond prices, which is so widely used by dealers that it has become the global diamond price benchmark. His critics, who refer to him as Napoleon Bonaparte, claim he dictates the market.

"I learned the business bottom-up," he tells *Global Mining Observer*. After studying in Israel and growing up in Miami Beach, he became an apprentice cleaver. "If you understand the structure of a diamond, you can groove in and then flick, and the diamond splits along its seam." If the cleaver calls it wrong, the diamond shatters instead.

After a year of cleaving and sorting, he returned to the US to open a brokerage business. "I didn't want to hang out on the East Coast, because I was afraid of all the drug-dealers," so he zigzagged the West Coast changing rented cars, "so nobody would hit me on the head for my little briefcase of diamonds."

In the early 1970s, grading reports were only given to the highest quality stones. High inflation and negative real interest rates however spurred an investment frenzy. Grading reports became widespread, standardising the market. Using index-cards, a cassette-based IT system and a grid pinned to his office wall, Rapaport began collating data. "I had a couple of girls working for me and I said, anytime you see a buyer put a red pin in the box and anytime you see a seller, put a green pin in the box. Then you get on the phone."

As a broker, Rapaport collected a wealth of price data and began publishing a price list. "It was very popular," he says, "because prices were going up tremendously. That was all great." But when interest rates shot up, diamond prices reversed. "Money ran the other way. The market crashed and I kept publishing lower prices. People didn't like that very much."

The World Federation of Diamond Bourses banned the printing of price lists and Rapaport was thrown out of the New York Diamond Dealers Club. The US Free Trade Commission ordered that he be allowed back in, allegedly in exchange for information against De Beers. Rapaport wore a bullet-proof vest for 2 years and received bomb threats at his office. "You can't imagine ►

NEWCREST MINING has announced a board overhaul, following sharp criticism from proxy firm ISS, replacing its chairman and chief executive by mid-2014.

BEADELL RESOURCES has reported quarterly gold output of 55,000 ounces from its Tucano gold mine, Brazil. Grade control drilling at its Duckhead deposit has hit bonanza grade intersects of 125 grams per tonne.

LARA EXPLORATION has announced results from 13 holes drilled by joint-venture partner, Codelco, including 10m at 1.4 per cent copper equivalent.

MARKET REPORT

Stratex Consortium Buys Controlling Stake in Tanzania's Tembo Gold

LONDON: Stratex rose 9 per cent on Wednesday to 4.75p after founding a consortium of investors to buy over 60 per cent of Toronto-listed Tembo Gold.

Stratex will take an initial 10.3 per cent stake in Tembo for \$1.7m, rising to 18.7 per cent after warrants. Chief executive Bob Foster will also join Tembo's board, alongside representatives from the consortium's other parties, private equity fund New Africa Mining and a German investment house.

35,000m of drilling to date at Tembo's flagship Tembo project, Tanzania, includes 36m at 23 grams per tonne. Stratex chairman Christopher Hall said the company could "guide, support and provide the finance" for two "tightly focused" drilling campaigns aimed at defining a maiden resource.

Sable Mining meanwhile jumped 8 per cent to 10.25p after being granted an export decree for its Nimba iron ore project in Guinea. Resources of 136m tonnes are due to be upgraded.

AUSTRALIA: Avanco Resources added over 8 per cent Tuesday on its heaviest volume this year, after signing a \$12m royalty deal with BlackRock's World Mining Trust. The financing bridges a capital shortfall for its Antas North project in Brazil's prolific Carajas district, now fully-funded to production.

Recent drill results include 49m at 2.4 per cent copper and 0.4 grams per tonne gold. Subject to due diligence, license awards and a JORC resource, BlackRock will gain a 2 per cent royalty on copper from the mine and a 25 per cent royalty on gold.

CANADA: Pretium Resources plunged 30.5 per cent Wednesday after a respected consultancy group resigned from a bulk sampling program at its Brucejack gold project, British Columbia. Pretium chief executive Robert Quartermain described it as a "disagreement between two Qualified Persons."

Shares rallied Thursday to C\$5.47.



FODAY SANKOH, one-time rebel leader in Sierra Leone, who Rapaport negotiated with on behalf of the US. "Planes would come in from Colombia with cash, the cash would be transferred to diamonds and guns and the diamonds would show up in Switzerland." Rapaport describes the Kimberley Process as "greenwashing on a massive scale."

► the stress there was."

His price list however had become embedded. Rather than dealers negotiate the price of each grade in turn, they simply agreed a discount to the listed Rap price. "When you grade diamonds properly and standardise a certain quality, you'll see that there's a rational relationship. They monotonically increase in preference value, so D is always worth more than E. There was a structure I was able to perceive and I created a group system for doing that. No-one had ever seen that before. It's practical and it works."

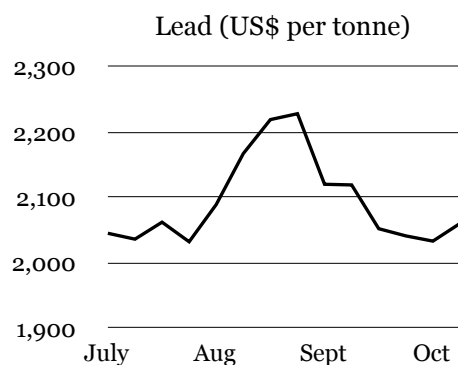
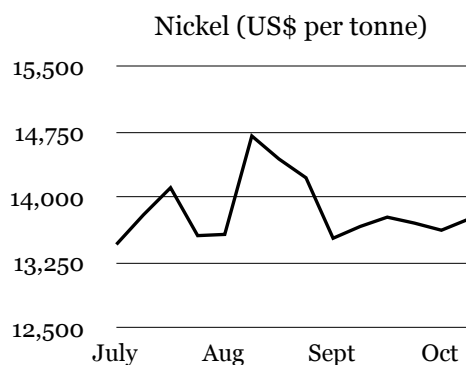
Rapaport has considered a similar system for coloured gemstones, where the added complexity of colour is less easy to grade, with bigger efficiencies to be gained. "You want pinkish-purple but in Thailand they may want purply-pink." By cornering mined supply, he says London-listed Gemfields is becoming the "principle pricer."

From auctions to news to handling, Rapaport's interests are sprawling. He has served as an envoy to Sierra Leone and is an outspoken critic of the Kimberley passport process, which he says rubber stamps diamonds from wartorn countries. He is believed to be working on a diamond futures exchange, but is "NDA'd up to the wazoo." Over 1m diamonds valued at \$6.5bn are meanwhile listed on RapNet, the world's largest diamond trading platform.

Each arm feeds information to the Rap List, which is set by a proprietary system based on the highest New York asking price. "I think rough prices will come down," he says, "because they're too high relative to polished." He adds that the dollar is overvalued. "There are problems with printing money until you run out of ink, but we live for today often and the long term view is not that relevant when you're trying to keep your economy going."

Rapaport shrugs off charges that he moves the market at his whim. "When we move the Rapaport price it's seen as confirmation. I never try to over-control the markets. I can't not go down with prices, or not go up with prices. People negotiate. It's a benchmark."

Disgruntled dealers add that the transparency created by a central list has collapsed margins by folding retail into wholesale prices. "If you were a travel agent, you'd probably get pissed off with Expedia," Rapaport retorts, "but it's the way the world is turning. I believe in transparency. What's good for the goose is good for the gander."



COMMODITIES: Tin, the top performer on the LME this year, is being held at 6-month highs by a Jakarta market rule change. In an effort to dispose of the LME as the global tin price benchmark, Indonesia's government has blocked cargoes unless they are dealt through its central exchange, but a lack of liquidity has forced exports 88 per cent lower, according to Trade Ministry data released this week. Indonesia ships 100,000 tonnes of tin each year, equal to 40 per cent of global supply.

