

Title: Tanzanite transformed: tanzanite one introduces quality grading, pricing changes, and a sight system; The company that owns the rights to mine the lion's share of tanzanite rough is taking a page from the De Beers playbook.(TANZANITE TRANSFORMATION)

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Although tanzanite is both rare and popular, its proliferation on TV shopping channels, wide availability in Tucson, and relatively low price per carat seem to contradict the laws of supply and demand.

TanzaniteOne, the company that owns the rights to mine the world's prime tanzanite location, says tanzanite has become "commoditized due to the lack of a ubiquitous grading system and ... this commoditization has caused a price distortion in which fine-quality goods are significantly underpriced and in the same instance lesser-quality goods are overpriced."

TanzaniteOne has plans to remedy that "price distortion." The company, formerly called Afgem, has established the nonprofit Tanzanite Foundation, which has developed a quality-grading system that justifies a wider range of prices.

COLOR. The new system's color-grading scales divide tanzanite colors into two different hues, blue violet and violet blue.

Each has 10 saturation levels:

- 1 Vivid Exceptional
- 2 Vivid 1
- 3 Vivid 2
- 4 Intense 1
- 5 Intense 2
- 6 Fancy 1
- 7 Fancy 2
- 8 Light 1
- 9 Light 2
- 10 Pale

"A master set is used to compare colors," notes Candice Nunn, managing director for TanzaniteOne Marketing Ltd., the rough-selling arm of the TanzaniteOne Group. Graders will use the internationally recognized Macbeth standard "daylight" lighting during the grading process.

CLARITY. The clarity-grading scale is simplified, as are most color-stones scales, but with a twist. While all other color-stone clarity scales begin with Eye Clean, the tanzanite scale will begin with Internally Flawless, graded at 10X, allowing it to compete with diamond in terms of rarity. The five clarity-grade ranges are:

- IF Internally Flawless (at 10X)
- VS Very Small Inclusion (eye clean with the unaided eye)
- LI Lightly Included (approximately VS with the unaided eye)
- MI Moderately Included
- HI Heavily Included

Cutting will be analyzed, also in five basic categories: Excellent, Fine, Good, Fair, and Poor.

An international laboratory (yet to be finalized) will grade cut stones, which will get laser inscriptions on the table. The inscription, the Tanzanite Foundation's Mark of Rarity, assures the consumer that the stone

has followed an ethical route to market and has been graded in accordance with an internationally accepted standard.

The Tanzanite Foundation will provide an inscription reader to make it easier for consumers to see the mark. "You would be able to see the Mark of Rarity using a good microscope," says Nunn, "but the viewer is really great to have in store for the consumer."

Stones that are recut can be inscribed again if necessary. The laboratory would perform a verification service and then reinscribe the stone.

Nunn recognizes that raising the price of rough could lead to poor cutting if cutters try to maximize weight retention to help reduce the final cost, but assigning a professional laboratory to grade cut and including Fair and Poor on the cut-grade scale should limit the practice.

\$1,000/CT. TANZANITE. To change market pricing will mean pricing the rough according to estimated weight and the new quality grade recovered after cutting. While most rough is purchased based on estimates of weight and quality recovered, the new system closely resembles De Beers' method of selling diamond rough. De Beers can price out potential D/Flawless rough, all the way down to near gem. Now TanzaniteOne can price out potential blue-violet Vivid Exceptional/Internally Flawless rough down through blue-violet Pale/Heavily Included. TanzaniteOne will follow this and other successful De Beers models for market control, which it calls Preferred Supply Strategy.

The classic De Beers strategy is to control supply. TanzaniteOne, which already gathers the majority of tanzanite rough and polished goods through its own mine production as well as purchases from other local sources, apparently has achieved this portion of the model. To accomplish another key element of the De Beers model--controlling the flow of tanzanite into the industry--it will hold tanzanite sights six times per year, for six to eight handpicked businesses.

Sightholders will be chosen based on eight criteria: having a focused tanzanite business, proven financial strength, the ability to make long-term commitments, distribution capabilities, understanding the need for vertical integration, commitment to and financial support of the Tanzanite Foundation, operational standards of the highest integrity, and ensuring an ethical route to market. This follows De Beers' Supplier of Choice model.

TanzaniteOne will package and present individual sight parcels to the sightholders, who are invited to buy a particular parcel. In keeping with the De Beers model, there will be no haggling. For companies that want to acquire a sizable amount of product, there is no serious alternative.

THE OLD SYSTEM. In the past, TanzaniteOne, or Afgem, held auctions about once every three months. "The companies that we invited were large firms that would cut the majority of the material," says Nunn. "We accepted the highest bid, as long as it was above our reserve price." If the companies bought a large amount of unwanted smaller goods, they sold the material in the Jaipur, India, market.

Typically, only four or five parcels were available and were sold separately. Although companies couldn't make an offer on the entire production, it was possible for a single company to be the highest bidder for each individual parcel. "This sometimes caused a bit of unhappiness among the other companies," notes Nunn. "And even if all four parcels were sold to separate companies, we still had eight or so unhappy companies leaving us the next day."

Nunn says the old auction system benefited the company, but she recognized that the process was unfair and very expensive for those who went home empty-handed. It also was difficult for those companies to promote tanzanite, since they never knew when they'd have goods.

"Our sightholder system is really better for the industry," says Nunn. "Companies know where they stand and can develop their factories, jewelry lines, advertising, and marketing accordingly."

Stuart Robertson of The Guide doesn't anticipate any immediate price increases for tanzanite. It will take some months before new goods enter the marketplace.

"Tanzanite prices have fluctuated during the past several years," Robertson says. "However, they remain below their highs posted in the 1970s and 1980s."

Robertson agrees that the price range for tanzanite could be broadened. "The current plan to reorganize the distribution channels will eventually lead to higher prices in the finer-quality materials and may lead to a price reduction for commercial-quality stones," he says. "During the past few years, prices have been on a gradual increase. However, tanzanite is present in the market in sufficient quantity to suggest that any significant price jump can only occur slowly, if at all."

Tanzanite Single-Stone Memo Prices:

| | Commercial | Good | Fine | Extra Fine |
|------|-------------|-------------|-------------|-------------|
| 1998 | \$70-\$150 | \$150-\$235 | \$235-\$310 | \$310-\$400 |
| 1999 | \$70-\$150 | \$150-\$275 | \$275-\$425 | \$425-\$525 |
| 2000 | \$135-\$225 | \$225-\$350 | \$350-\$459 | \$450-\$575 |
| 2001 | \$175-\$275 | \$275-\$400 | \$400-\$500 | \$500-\$600 |
| 2002 | \$75-\$150 | \$150-\$225 | \$225-\$300 | \$300-\$425 |
| 2003 | \$100-\$175 | \$175-\$250 | \$250-\$350 | \$350-\$500 |
| 2004 | \$100-\$175 | \$175-\$250 | \$250-\$350 | \$350-\$450 |
| 2005 | \$100-\$200 | \$200-\$325 | \$325-\$450 | \$450-\$600 |

The 1985 issue of The Guide listed the following tanzanite prices, before the larger deposits were discovered:

| | Commercial | Good | Fine | Extra Fine |
|-------------|------------|-------------|--------------|---------------|
| 5-< 10 cts. | N/A | \$500-\$750 | \$750-\$1000 | \$1000-\$2000 |

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1999 Afgem acquires mining lease from Tanzanian Government.

2000 Afgem begins constructing modern mining facilities and lists on the Johannesburg Stock Exchange.

2001 Afgem wins skirmishes with independent miners unhappy with the new mining arrangements.

2002 Afgem and small-scale miners see tanzanite's popularity and prices plummet after reports allege that al Qaeda is using tanzanite for money laundering. AGTA and others help Tanzania establish protocols to track goods from mine to retail counter.

2003 Afgem's tanzanite business and assets are acquired by the TanzaniteOne Group, a Bermuda-based business formed by Afgem officers, with the intention of listing the company on the Alternative Investment Market of the London Stock Exchange (AIM).

2004 TanzaniteOne is listed on the London Stock Exchange.

2005 TanzaniteOne holds first sight, March 16. Seven sightholders participate.

The Merelani Hills of Tanzania is the world's only known commercial source for gem-quality zoisite that can be heated to create tanzanite. The site is divided into four blocks, A through D. Block A has never produced much, and production from B and D is said to be dwindling.

Block C, which, according to most accounts, is where the majority of tanzanite rough will be unearthed, is leased to TanzaniteOne, formerly Afgem. Block C's life expectancy is 12 to 15 years, which means it will be mined only until the year 2020.

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