

# WHY BUYERS SHUNNED THE WORLD'S LARGEST DIAMOND

At 1,109 carats, big as a tennis ball, the world's largest uncut diamond was expected to shatter records at a June Sotheby's auction. How did the dazzling stone go unsold? An exclusive reveals what went wrong.

BY

MATTHEW HART

AUGUST 5, 2016 5:00 AM

## **BUT IS IT ART?**

The 1,109-carat Lesedi La Rona diamond, on view at Sotheby's in New York in May.

By Justin Lane/EPA/Redux.

The assassination of William Lamb began at 6:45 P.M. on a soft June night. Spectators packed the killing ground, a sales room on the second floor of Sotheby's, in London. The victim wore the raiment of his caste, a crisp tuxedo. A few yards in front of where he sat, blazing in its spotlight on a plinth beside the auctioneer, was a 1,109-carat top-color white diamond called Lesedi La Rona, the vessel of Lamb's hopes for a bold new way to sell rough diamonds. His wife had bought him new shoes for the occasion, the toe caps spattered with faux gems. He wore socks patterned with jaunty slashes of color.

The Lesedi diamond opened at \$50 million and struggled from the start. Fifty-one million dollars, someone offered, and too long after that, \$52 million. This was not the scenario that Lamb had imagined in his dreams. In that version, a forest of bidding paddles would have shot up in the room as eager buyers drove the price north of \$100 million. Just the month before, Lucara Diamond Corp., the company Lamb runs and the owner of the diamond, had sold an 813-carat stone for \$63.1 million—the highest price ever paid for a rough diamond. Now here was this even greater jewel, the second-biggest diamond ever found, and where were the clamoring suitors? Just that morning at breakfast, Lamb's boss, Lukas Lundin, a Swedish oil and mining tycoon whose family is Lucara's largest shareholder, had explained to me that the company's commission arrangement with Sotheby's meant the stone would have to reach \$150 million for the auctioneer to make decent money. "Up to \$100 million," he said, "they make almost nothing."

"You have a buyer already, don't you?" I said.

"We think we do," Lundin replied, slicing into a poached egg. He glanced out the window at the trees of Green Park and at the traffic on Piccadilly flowing by in the rain. "But," he raised his knife in a cautionary gesture, "you never know."

Nine hours later he sure found out, sitting in front of Lamb while the auctioneer tried to drag up the price in increments of \$500,000. At \$61 million, still short of the reserve, the price would not budge. The gavel came down and brought the failed auction to a close.

Ashen-faced, Lamb got to his feet. A pack of diamond dealers closed around him. I thought of Julius Caesar at the Senate on the Ides of March. Those surrounding Lamb represented the old diamond order, whose grip Lamb had just tried to loosen. By selling the great diamond at auction, Lamb had attempted to replace the story some of these men tell the world with another story, and the daggers bristling from his back had been planted there by those who did not like the switch.

## A LIGHT WITHIN

With the failure of the Sotheby's auction, William Lamb released me from the terms of a non-disclosure agreement with a ruinous breach penalty. By signing it, I had gained exclusive access over a period of six months not only to Lesedi La Rona but to the deliberations of the owners—their doubts, their anxieties, their hopes—and to the story of discovery that had set the attempted sale in motion. Within hours of signing the agreement, earlier this year, I was over the ocean and halfway to Botswana to see the diamond for myself. It was, I knew, an apple-size, top-color white, by far the largest in a phenomenal run of super-large diamonds that had lately come on the market: 550 carats, 404 carats, 813 carats, and on and on. This one left the others in the dust: 1,109 carats. How miners now manage to recover such enormous gemstones without smashing them to bits in the mill is itself an astonishing feat of engineering, for which much of the credit belongs to Lamb and his close circle. Yet despite its spectacular success in doing just that, and now possessing a stone that the greatest diamantaires in the world were panting to examine, Lucara had shut the diamond away under tight security. The company would not show it until it had the answer to a question: was there a way to extract more money from this diamond than the usual selling practice would deliver?

In the prevailing model, miners who find large rough sell it to people who cut and polish it—the high-end trade. The high-end trade converts the rough into a polished gem, slaps on as much margin as it will bear, and sells it to the end-use billionaire. If Lucara wanted to get more money for its diamond, then, one place to look for it was in that margin. By selling straight to an end buyer, Lucara could have all the proceeds for itself. Such a course would launch Lamb straight at powerful vested interests.

In the plane's darkened cabin, I scrolled through photographs of the diamond. The Lesedi shone with a bright intensity. Large diamonds radiate luminescence, as if a source of light lay deep inside their complex structures. In the photograph I studied longest, a deep-blue bruise seemed to smolder in the depths. In diamonds, carbon atoms are laced together by the strongest bond in chemistry, the shared-electron bond. In the places where diamonds form, titanic forces can wrench the crystal lattice out of shape. When the heat created by a polishing wheel reaches such a flaw, the diamond can explode. Lucara had announced that the gem was a D, the best white color, and a type IIa, the purest form of diamond. About its clarity, its structural condition, Lucara had said nothing. The diamond was in Gaborone, the capital of Botswana. Hundreds of top diamond dealers pass through Gaborone every month, but none had yet seen the diamond.

At dawn we crossed the Angolan coast. A river glinted in the early light. Angola's waterways have produced ravishing diamonds. I remembered a 24-carat pink recovered by a pair of South Africans I'd met. They operated a suction barge on the Chicapa River during the Angolan civil war, mining alluvial diamonds by day and exchanging rocket fire with their competitors by night. They flew the pink to Johannesburg in a Learjet, and sold it on the bourse for \$4.8 million. By the time it passed through a few more hands and got polished in New York, the price had climbed to \$20 million.

Diamond pricing is an arcane, rapacious art. Color is just one of the many factors that bear upon it. Obviously, weight is a driver, too. The per-carat price of diamonds rises exponentially with size. That is because large diamonds are rarer than small diamonds. In New York right now, a top-color, best-cut white weighing a single carat runs about \$30,000. Compare that to the price of a 100-carat stone of the same quality that sold at Sotheby's in New York last year for \$22 million—\$220,000 per carat. But a diamond weighing more than a thousand carats? The stock market flailed around for a value in the days after the discovery was announced, at one point driving up Lucara's market valuation by \$150 million. Clearly there was no easy way to fix a price, but everyone knew it would be a lot.

In Gaborone a driver picked me up at my hotel and drove me off to see the diamond. Lucara's Botswana offices are located behind a steel fence in a lush cantonment of gardens and low-rise buildings called the Diamond Technology Park. Steve Lincoln, the head of sales, has a tuft of gray hair gelled into a spike, bright blue eyes, and arrowhead eyebrows that give his face an expression of continual surmise. He displays the glossy, light-brown finish that comes of being a white person living in a desert country with decent sunblock and a swimming pool. The diamond trade abounds in people with Lincoln's background, Englishmen who were trained from youth in the greatest diamond entrepôt that ever existed: the Diamond Trading Company, in London. The D.T.C., as it was always called, was the selling arm of the De Beers mining group. For decades it was the world's diamond funnel, trading more than 80 percent of the world's rough diamonds. More than half a

million carats a week came sluicing into the D.T.C.'s headquarters on Charterhouse Street, where young men like Lincoln fed them into sorting machines.

He learned to create the variety that the D.T.C. presented to its clients. Sorting rough into "boxes" for clients is one of the diamond game's dark arts. A mining company wants to sell all the diamonds it digs up, yet each client will have his own diamond needs, often very specialized. The right assortment, with concentrations of certain weights and colors, will persuade the client to accept what he does not want in order to get what he does. But Lucara has an additional selling challenge: super-large diamonds. It mines more of them than any other company. They are too particular to fit into the usual assortments. Lucara sells them by sealed tender, each diamond its own separate lot. Dealers hate this system.

"You invariably pay too much," said Stuart Samuels, a New York big-gem trader. "Let's say you've already got a customer for it. You don't want to lose the stone. So you bid high just to make sure. It's a system that's stacked in favor of the seller. We would much prefer the traditional way that diamonds have been bought and sold. You sit down with the seller and make an offer across the table. Then we see how it goes. Then we have a discussion. There's some give-and-take."

Maybe there's some screaming and some pounding on the table. Hey, it's the diamond trade. If you ever find yourself in post-production needing the sound of screaming males, take your tape recorder to Antwerp and go to the diamond quarter.



#### **THE SELLER**

William Lamb, C.E.O. of Lucara Diamond Corp., at the company's headquarters, in Vancouver.

By Rob Kruyt.

**"IT'S A GRAFF STONE"**

This time, though, with a diamond so massive, Lucara too had a problem with the sealed-tender system. That system involved the usual group of diamond dealers. It did not reach outside the normal pool of wealth available for buying diamonds. Lucara had the biggest diamond in the world. Possibly no asset on earth was worth so much by weight.

“Everybody wants to see it,” Lincoln told me. “I get four calls a day.”

“From whom?”

“From everybody.”

“From people like Graff?” I said. “I mean, it’s a Graff stone.”

“Yes,” said Lincoln, “people like that.”

But there is really no such thing as “people like Graff.” There is only Graff, Laurence Graff, the storied London dealer in the kinds of diamonds bought by people who own countries.

Lincoln showed me into one of the rooms where customers examine rough, and went to get the diamond. The room had the usual appointments: high-wattage fluorescent flex lamps, large pads of snowy-white paper, loupes, tweezers, diamond scoops, and small, cube-shaped machines, the size of a ring box, that can grade a diamond’s color in an instant. Dealers like to spread a parcel of diamonds onto white paper and examine the goods in strong light, often stone by stone, covering the paper with cryptic notes and calculations.

## DIAMOND PRICING IS AN ARCANE, RAPACIOUS ART. THE PER-CARAT PRICE OF DIAMONDS RISES EXPONENTIALLY WITH SIZE.

Lincoln returned with a sort of heavy-duty Ziploc bag and told me to close my eyes. He dropped the diamond into my cupped hands. I felt the sudden, jagged, ice-cold weight, and opened my eyes to see light storming in my fingers. And—now it seems strange to say it—the diamond felt fragile too. I suddenly remembered all the stories about diamonds shattering at a tap. “Look in here,” Lincoln said, indicating a flat-sided cleft, as if someone had cut a tidy ledge into the rough surface. It was a cleavage plane, where a piece of the diamond had broken off. I put the loupe to this natural window and peered in, and in a moment understood Lucara’s excitement. It felt like toppling over the edge of a chasm into a clear abyss—a depth of lucid space that seemed to occupy at least a third of the stone, maybe even half. Easily more than 400 carats, or that’s what I guessed. I had never seen a diamond like it that was not locked up in the Tower of London, among the crown jewels. Lincoln recalled telephoning William Lamb after the stone’s discovery: “My voice started to break. I had to put down the phone and take a breath.” He shook his head and made a helpless gesture with his hands.

That night I sat on the hotel roof and ordered dinner while a soft breeze blew in from the desert. I thought about the problem of pricing the big diamond. There is a lot of action in the high-end diamond trade. Last November, only days before the discovery of the Lesedi diamond, Joseph Lau, a Hong Kong real-estate tycoon, paid \$48.5 million at Sotheby’s in Geneva for the Blue Moon, a 12.03-carat sapphire-blue diamond—at \$4.03 million a carat, the highest per-carat price ever paid. The night before, Lau had paid \$28.5 million at Christie’s for a 16-carat pink. In two days he had spent \$77

million buying two diamonds. Lau paid a lot of money, but would he—would anyone—pay even more for the Lucara diamond? And what, in fact, would the purchaser be buying? Sure, it was the biggest diamond in more than a hundred years, but for how long might that be said? Lucara was getting very good at finding super-big gems. It was better at it than any other mining company in the world.

### **“NO NO NO YES!”**

In the morning I flew to Francistown and set out across the northern Kalahari Desert to Lucara’s distant mine. Most diamonds, from Siberia to Botswana to the Canadian Arctic, are recovered from ore in plants called diamond mills, which are all basically alike. They pound and smash up rock, sending the broken pieces racketing through a tangle of chutes and cyclones until they are reduced to a stream of heavy minerals. Only very dense minerals, such as diamonds, make it to the final conveyor and head for a bank of X-rays.

Certain impurities cause diamonds to fluoresce under X-ray. When a photomultiplier detects a burst of fluorescence, it alerts a group of air jets that a diamond is coming. As the mineral grains fall off the end of the conveyor, the air jets blast the diamond from the stream. Ninety-five percent of the diamonds are captured on the first pass.

At the Lucara mine there is a special problem—a lot of very large diamonds. Large diamonds must be retrieved from among much larger chunks of ore, but large chunks of ore would choke an ordinary diamond mill. Instead, a screening system sends the bigger chunks to a different recovery circuit altogether. Known as XRT—X-ray transmission—the system beams a powerful X-ray at the stream of passing rock. As William Lamb explained, “All it wants to know is whether any of the stuff it’s looking at is carbon, and it’s saying no no no no no no yes!” At *yes!* the XRT alerts a bank of air jets mounted at the end of the conveyor, and the diamond gets blasted from the stream.

One day I climbed to the top of the recovery plant. The air shook with the roar of crushed rock pouring into five bright-red XRT machines. Only one was calibrated to look for diamonds as large as 1,100 carats. From the day the company turned it on, that one machine did not say *yes!* to a single rock for five unbroken months. Then one November night it spotted the Lesedi La Rona hurtling through its X-ray beam and—*FFFT!*—sent it tumbling down a chute to the recovery room, where flabbergasted sorters found it in the morning.

### **LIKE A PICASSO**

Botswana’s annual diamond output of 25 million carats is sold in Gaborone at sales called sights that are held 10 times a year. Russia’s mighty diamond monopoly, Alrosa, operates a similar schedule of sales to unload its own stupefying volumes—last year, almost 40 million carats. The idea that diamonds are rare must contend with this evidence that they are not. Right now, the industry is choked with unsold rough. A recent contraction of demand in China trashed the wholesale diamond price and wiped out a number of cutting-and-polishing factories in India. A sense of apprehension pervades the diamond world. But not at Lucara.

Lucara has no debt. In July it had so much cash on hand that it declared a special dividend of \$133 million. It has an enviable share of the world’s heavyweight diamonds. Of the 52 biggest diamonds discovered in the past three centuries, 10 have come from Lucara in the past three years. With modifications under way at the mill, Lucara will soon be able to recover diamonds up to 3,000 carats, and next year, up to 5,000 carats—as big as a softball. Driving all this is Lamb. In November of last year, when that big diamond rattled down a chute and into his recovery room, Lamb began thinking about the best way to sell it. As noted, the usual selling route lay through the middlemen of the diamond trade. Lamb wanted to see if he could find a more direct line to the money he thought might be available. This put him on a collision course with the world’s top diamantaires, because, let’s face it, the pockets Lamb meant to pick were theirs.

The contest became one of competing narratives. In the narrative preferred by diamantaires, diamonds possess a mystique conferred by those who transform rough into polished jewels. In this view, the value of the rough is a function of the polished outcome it delivers, and only the diamantaire can say what that should be. Lamb was trying out a different narrative. In his telling, an uncut diamond, especially one so magnificent, had an allure all its own. It was unique, like a great painting, and should be thought of as one would think of a Picasso. What's more, he intended to sell it the way a Picasso would be sold—at auction.

## THE BIGGEST PRIZE

The diamond, newly named Lesedi La Rona—"Our Light" in Botswana's majority Tswana language—set out in April on a viewing tour for prospective buyers that began in Singapore, moved on to Hong Kong and Dubai, and arrived in New York on a rainy Wednesday night in early May at Sotheby's on the Upper East Side. As the champagne and canapés went around on the sixth floor, attention focused on a shiny black square column that gleamed in the center of the space.

David Bennett, a curly-haired British auctioneer, stepped to the front of the throng. Bennett lives in Geneva, but many of the guests clearly knew him; he has been selling gems at Sotheby's for 40 years. "I have never seen anything like this," he told the room; "no rough gemstone like it has ever been sold at auction." He compared it to the Cullinan diamond, the largest diamond ever found, and inevitably to the crown jewels: the British monarch's scepter holds the largest polished white diamond in the world, the 530-carat Great Star of Africa, which was cut from the Cullinan. Then a mechanism clicked, and the Lesedi rose up from inside the column. For a moment it sat there in the twilight, a silvery outline, until—*plink!*—a tiny light switched on. The diamond erupted in a blaze of ice-cold fire.

While Bennett was out front ticking off important selling boxes—Queen: check; Great Star of Africa: check—a sheaf of confidential documents was circulating to top dealers. The buyer of a Picasso wants to make sure he's not being had. These documents made the case for the Lesedi's underlying value. I had copies of the documents. One was a 30-page analysis by Donald Palmieri, the principal of Gem Certification & Assurance Lab, a well-known firm in the heart of New York's Diamond District.

For decades Palmieri has provided opinions, often in court, to those struggling to untangle the coils of some diamond scam. He has written detailed reports on many valuable diamonds. In March of this year Palmieri and two of his associates flew to Gaborone with their equipment to examine the Lesedi. The report he wrote was more than technical. It breathed with wonder. He called the trip to see the diamond a "life-altering experience" and said that although he had seen "many thousands of important and magnificent gems and jewels" in his career, the Lesedi topped them all. One morning I sat in a tiny office with Palmieri and the diamond experts who'd gone to Botswana with him.

"When I saw it I thought—Oh! It's so clean!" Halina Kaban said.

"Look how deep it is!" said Sharrie Woodring Hand. We were gazing at a video she'd made in Gaborone. "That's 66 millimeters [2.6 inches] of solid diamond, and you can see right through it!"

"You could read a newspaper through it," Palmieri said.

"I hope they never cut it," Kaban said fiercely.

Nevertheless, part of Palmieri's job was to anticipate that they would do just that, and to say what a cutter might produce from the diamond. The conjectured polished outcome would help to calculate the diamond's value, even if the buyer kept it as a rough. Or would it? What if the polished diamond that Palmieri saw inside the stone was bigger than anything that

had ever passed through the hands of a diamond dealer? Because, guess what? It was. Palmieri wrote that the Lesedi could “yield the largest D color faceted and polished diamond known in the world of over 530 carats.” To those reading his words, “over 530 carats” could have only one meaning: a top-color white bigger than the Great Star of Africa, the greatest prize in diamonds.

## JUDGMENT DAY

Britain was having a bad moment when I flew over for the auction. The kingdom had fractured into warring factions in a referendum over membership in the European Union, and the result of the vote—to ditch Europe, the option known as Brexit—had sent the pound tumbling and roiled financial markets around the world. But at Sotheby’s in London’s Bond Street two nights before the sale, you would never have known it.

A well-dressed mob trooped up the wide, carpeted stairs toward the sound of band music. Posters of the diamond glowed from the walls. On the landing stood a line of ramrod-straight young men holding silver trays. They offered flutes of champagne and a kind of cocktail made of magenta slush. At the entrance to the suite of galleries hung an enormous gold-and-orange Keith Haring painting called *The Last Rainforest*. On other walls—Warhol, Klein, Twombly, Calder, Dubuffet. It was hard to miss the message: the jewel deserved to be included in this company.

If I had any glimpse of the train that was headed down the track in William Lamb’s direction, it came from Laurence Graff. We’d had several short chats on the phone in the run-up to the auction, and I knew he strongly opposed it. Graff is not just a member of the high-end trade: he is its avatar. His establishment in New Bond Street stands beside the other jewelers like a wolfhound among beagles. I’m sure he would say so himself. When Lucara sold to a different buyer an 813-carat diamond that Graff had tried to buy, he told me that he was “surprised that it went to an outfit that is not . . .,” and here he struggled for the term, until he found it: “an outfit that is not *Graff*.”

He was in France when I called him on the morning of the sale, June 29.

## LAMB WAS ON A COLLISION COURSE WITH THE WORLD’S TOP DIAMANTAIRES, BECAUSE THE POCKETS HE MEANT TO PICK WERE THEIRS.

“It’s not nice,” he said. “We don’t like it, what they’re doing. It’s just not how it’s done. We don’t want to have to expose ourselves in public [at an auction]. To contend in the open arena, we find it undesirable.”

Let me be plain about why I found these remarks so chilling, and why, as I heard them, I feared for Lamb. The high-end diamond game is played on a very small field by only a few players. Not many diamantaires have the financial muscle or the nerve to cut big diamonds. If they did not want to “contend in the open arena,” where would they contend? Well, they would contend in the shadows. Even before I had set out to see the diamond—when not a soul outside Lucara had yet seen it—I had heard dealers put it down. It was no secret that the diamond trade was trash-talking the Lesedi. I had heard the talk myself—the street was awash in poisonous gossip. I had always thought that the diamond itself would silence such talk, issuing into the world armed in its own magnificence. But in speaking with Graff, I now understood the enormity of the peril faced by Lamb and his jewel. For it did not matter what most people thought. It only mattered what *these* people thought, what Graff thought, and the few other diamantaires able to buy such a diamond. Even a collector not planning to cut it—some oligarch or sheikh—would want to know first how such men judged it: what they saw inside the stone. Lamb did not have these people at his mercy; at the auction, they had him at theirs.

“When we polish these big stones, we never know what we are going to get,” Graff said. “The larger the rough, the greater the chance that there’s a defect. It can ruin your hopes by as much as 40 percent. You think you are getting flawless and then find that it’s VVS1”—referring to a technical grade just shy of perfection. “There goes 40 percent. We are not even a hundred percent sure of the color.” I don’t know who else Graff shared his thoughts with, or if he shared them at all, but I thought of them that night when the hammer came down and the room sat silent for a moment, stunned.

“I think they had a big buyer,” a veteran diamond-watcher told me. “I heard about people who were really ready to pay. But it’s an auction. They have to take their lead from someone, and non-trade buyers would follow the trade. But the trade was totally opposed.”

## VALUE

Lamb’s eyes were a little bloodshot when we met at his hotel for breakfast two days after the auction. Still, he looked composed, in jeans and a long-sleeved T-shirt, with a silver can of energy drink in front of him. Lamb relishes a challenge. He has run the Grand Canyon rim to rim. His idea of a European vacation is to ride his bike up the Col du Glandon. He had decided that the auction was a temporary setback and dismissed the trash talk with contempt.

“They knew the color was D,” he said. “That was just total bullshit. If it wasn’t a D, how did it get to \$61 million? With the buyer’s premium, that means someone in the room was ready to pay \$68.3 million. Who’s paying that if he’s not sure it’s a D?”



### THE SKEPTIC

Laurence Graff, the London jeweler, in his Mayfair office.

By Daniel Lynch/Eyevine/Redux.

Less than a month later, Lamb would have an offer for the Lesedi La Rona well above the failed auction price. Importantly, the hopeful buyer was not a diamantaire. The most beautiful rough diamonds in the world swagger through Lucara’s catalogues. I would not be resting easy if I were a diamond dealer who had made Lamb my enemy.



Lamb's wife, Paula, joined us. His mood brightened. They are very close, and for them, the Lesedi had become like a personal friend. I'd felt something of this attachment, too; the stone is deeply moving. Paula Lamb is protective of her husband, and I could tell that she felt the outcome of the auction keenly. The tables around us were heaped with smoked salmon, fruit, the inevitable quinoa. There were berries I could not identify. Paula Lamb stared at the menu. It listed many lavish kinds of eggs; she surveyed them bleakly. "I don't think I even want eggs," she said.

Lamb gave her a sudden, radiant smile and leaned across the table and rubbed her back. Extracting value was still in his thoughts.

"Yes you do, darling," he said. "You are having eggs. They charge £32 for breakfast here."