THE COST OF SUSTAINABLE LUXURY

by DIATRACE

The Gems & Jewellery industry is inadvertently gravitating towards sustainability and traceability to meet the growing demand for ethically sourced, eco-friendly products, and comply with strict international regulations. However, a common mentality in the movement is that while most agree sustainability is beneficial, executing it is a costly endeavour only justified if customers pay a premium – and there's little consensus on just how strong that pull from customers is yet.

We believe this perspective can mislead. In this article, we will break down the real costs of sustainability. While our primary focus is the Gems & Jewellery segment, much of what we explore applies to other forms of luxury.

WHAT DOES SUSTAINABILITY REALLY ENTAIL?

Sustainability is often oversimplified as merely achieving carbon neutrality. However, true sustainability requires a holistic approach encompassing environmental, social, and governance (ESG) frameworks. Each pillar is crucial for assessing the actual cost of sustainability and identifying potential savings.

Environmental

This includes energy efficiency, waste reduction, responsible resource use, water conservation, and green building practices.

Social

Fair wages, labor law compliance, health and safety standards, diversity, human rights, and social responsibility are part of a business's social impact.

Governance

This involves provenance verification, ethical standards, conflict-free certifications, anti-money laundering policies, and adherence to international regulations / sanctions.

A comprehensive look at these three pillars reveals that a lot of what is framed as a "sustainability cost" is either a legal requirement or it leads to long-term savings rather than ongoing expenses.

COST CENTRE OR PROFIT CENTRE?

Health, safety, and environmental (HSE) compliance costs, while crucial, are often relatively minor compared to the high-level cost structure of luxury goods. Ensuring safe working conditions and compliance with labor laws is a given in today's regulatory environment, and these expenses should be seen as a standard part of doing business, not as a sustainability cost. While there may be costs associated with safety upgrades, these are investments in risk mitigation and brand protection. Much like how having certain systems and processes e.g. for traceability can provide comfort to the regulators and mitigate potential legal risks.

Additionally, efficiency gained from responsible resource usage is often cost-neutral. For instance, optimizing water and energy consumption, minimizing waste, and using sustainable materials frequently lead to long-term savings. Companies may need agencies to identify gaps and implement resource-saving measures, but these are usually one-time investments resulting in ongoing cost reductions. Consider energy-efficient equipment or waste management systems: while they may require an upfront investment, the savings in operational costs over time can more than compensate for the initial expenditure. Therefore, this also is not always an added cost but instead a strategic advantage that yields financial and environmental benefits over the long run.

This should demonstrate that many companies may already be somewhere along the sustainability spectrum without even fully realizing or leveraging it, and many others can take steps to start on this journey with minimal costs. This is also why instead of having a pass-fail system when certifying facilities, we provide a comprehensive ESG Score at Diatrace, allowing companies of all sizes to demonstrate initiative and progress.

BREAKING DOWN THE CARBON COST

The primary expense of sustainability often arises from carbon emissions and remediation measures—particularly in compliance with Scope 1, Scope 2, and Scope 3 emissions standards.

SCOPE 1: These are direct emissions from owned or controlled sources, like fuel used in transportation or factory operations.

SCOPE 2: Primarily related to energy consumption, particularly electricity usage.

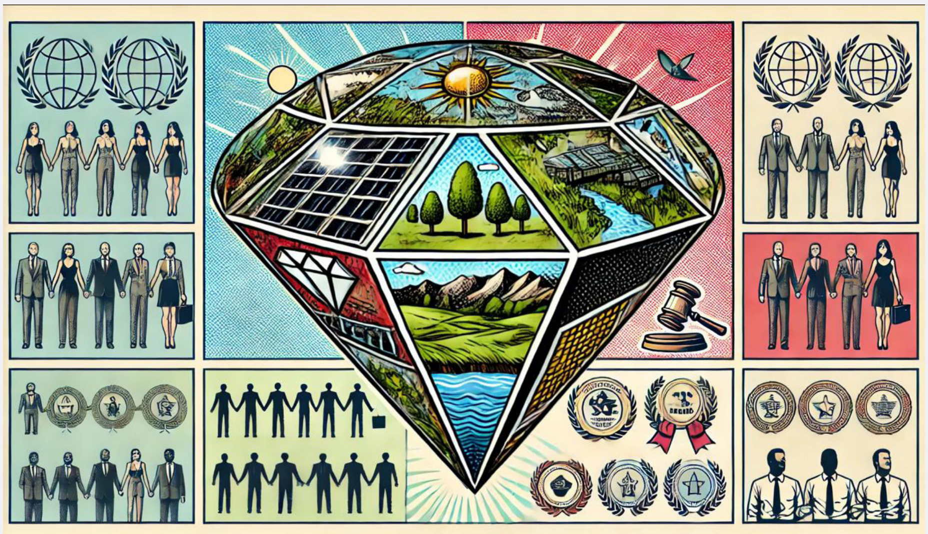
SCOPE 3: This includes indirect emissions from supply chains, encompassing everything from mining to retail.

Scope 1 and Scope 3 emissions can be offset by purchasing carbon credits. According to Diatrace's estimates, about 1.5 carbon credits are needed to offset the carbon footprint for every 100 carats of diamond produced. With carbon credit prices between $2 and $15, this adds only about 15 to 20 cents per carat. This minimal expense underscores how small the cost of offsetting emissions can be, especially compared to the broader profitability of luxury goods.

Scope 2 emissions are typically addressed by implementing renewable energy sources, predominantly solar. Although going solar requires a significant upfront capital expenditure, this is not merely a "cost". With payback in about 5-7 years (in countries like India) based on utility bill savings alone, this is an asset yielding over 10-15% annualized returns. Furthermore, tax deductions for depreciation and other financial optimizations can boost this return even more. Also, as electricity costs rise over time, solar power protects companies from this with more energy independence. Accounting for an average cost of finance, this can mean that moving to renewables is a net-zero or near-zero cost endeavour!

COST OF IMPLEMENTATION

Another inhibiting component of the sustainability journey is often the actual implementation which involves certifications, audits, traceability platform, etc., which can be a major cost or hassle. Here again, while some platforms can be expensive, platforms like Diatrace are making this journey extremely accessible with costs starting at just $1999 per year. These systems make it easier for companies to adopt sustainable practices and verify their claims to customers and regulatory bodies alike.



CONCLUSION

The narrative that sustainability is an expensive endeavor in the luxury industry is outdated and inaccurate. When businesses take a holistic approach, factoring in long-term savings and optimized production, the cost of sustainability is not only manageable – it often pays for itself. If planned well, the total amortized costs can be as low as just $2-3 per diamond even excluding any assumptions on price premium customers may be willing to pay. The future of luxury is not just about exclusivity and aesthetics; it's about being responsible, transparent, and sustainable and the move towards is both affordable and achievable.