



Growth and Diversification of the Diamond Industry

Report on the National Roundtable on Canada's Diamond Industry: Economic and Social Contribution to 2015

May 20-21, 2003

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Preamble

At the 2002 Mines Ministers' Conference, Ministers examined opportunities and specific considerations related to the development of the diamond industry in Canada.

While supportive of the Kimberley Process, Ministers also recognized the need to develop cooperative strategies to maximize value and benefits from all stages (including geoscience, mining, and value added) for Canadians from the emerging diamond industry, including programs that enhance the opportunity for development of secondary industry in local communities. Ministers appreciated the requirement for flexibility in implementing strategies and regulations that meet specific provincial and territorial concerns.

Mines Ministers asked that an intergovernmental coordinating committee be formed from representatives of all interested jurisdictions under the auspices of the Intergovernmental Working Group on the Mineral Industry (IGWG), with a mandate to share information, assure full consultation, and coordinate efforts related to the Kimberley Process and the cooperative strategies.

On March 12, 2003, federal, provincial and territorial representatives (Annex 1) met as a steering committee to organize a Diamond Roundtable that would address the issues raised by the Mines Ministers. At that time, and in subsequent meetings, the steering committee drafted the program, chose the subjects and speakers for presentations, determined the topics for breakout sessions, and advised Natural Resources Canada (NRCan) on a list of people to be invited to the Roundtable.

THE CANADIAN DIAMOND INDUSTRY IN 2003 AND 2015

The exploration industry has been the initial beneficiary of the diamond play. The successes of the 1990s have provided the necessary investment to allow Canadian firms to continue exploring and prospecting not only in Canada, but throughout the rest of the world itself. There are 1000 people in the exploration sector, and this number may be maintained through 2015.

The mining component of the diamond industry at present consists of two mines. A third mine is in the review stage in the Northwest Territories. A fourth mine is being planned in Nunavut. The two operating mines employ about 1500 people in low, semi-skilled, skilled and management-level positions. More than half of the employees at the mines are Northerners. It is reasonable to foresee five productive diamond mines by 2015 with a total of 3000 direct employees.

The manufacturing or cutting and polishing sector is growing in three regions of Canada: British Columbia, Quebec, and the Northwest Territories. There are now over 100 people in the sector and there may be 200 by the end of 2003. By 2015, experts in diamond polishing expect as many as 600 in the industry in Canada.

The jewellery manufacturing industry is established in major centres but also includes many artisans working on a small scale. Although employment numbers are not known, there is agreement that the sector has growth potential.

Introduction

The Roundtable attracted about 140 participants (Annex 2) who met for one and a half days, including a half day of breakout sessions (Annex 3). There were seven breakout sessions organized for the Roundtable with conclusions and recommendations reported separately. In reports to the plenary session (Annex 4), they provided recommendations to:

- increase cooperation among governments and industry to develop a skilled labour force;
- increase Aboriginal business capacity;
- ensure the coordination, harmonization and financing of activities to build sustainable communities;
- encourage industry growth through changes to the existing tax structure;
- encourage cooperation to maintain the integrity of the industry;
- assess infrastructure needs in remote northern areas; and
- take advantage of opportunities to market Canadian diamonds and industry expertise.

A recommendation to eliminate the excise tax on jewellery was arrived at independently by two of the breakout groups. After the Roundtable, Minister Dhaliwal followed up on that recommendation by writing to his colleague, the Minister of Finance.

BREAKOUT SESSION I, VALUATION

Governments of most major diamond-producing countries have a valuation process to monitor trade and as a basis for the collection of taxes or royalties. Provinces in Canada have recognized that they will also need to value their diamond production when mines open in their jurisdiction. At the present time in Canada, there are very few independent valuers available to government or industry, and there is a lack of domestic expertise able to carry out the valuation process. Provinces and territories recognize that they can benefit from the experience of the federal Department of Indian Affairs and Northern Development (DIAND), whose system being used in the Northwest Territories (N.W.T.) for the last five years has resulted in an accumulation of knowledge on valuation systems, processes and methodologies. Industry and several jurisdictions have indicated that the potential benefit of the proactive transfer of the knowledge gained to date could prevent duplication of efforts and lead to more efficient valuation processes.

Industry and governments have recognized that they both benefit from a cooperative approach to valuation methodologies. They also believe that an effective valuation system needs to be independent, transparent, timely and statistically accurate.

In the event that a jurisdiction takes on multiple roles, such as a joint-venture partnership, or policy initiatives, there must be measures taken to avoid perceived conflicts of interest.

The breakout session on valuation made four recommendations:

- **As diamond production increases, governments should explore an effective valuation system through harmonization and coordination.**
- **There should be a proactive exchange of information to ensure systems are in place to avoid any delays.**
- **Canada should develop a strategy to achieve the expertise and capacity in valuation to build credibility in our industry and develop the potential for exporting that expertise.**
- **Whatever valuation process is established, efforts should be made to maintain cooperative and open dialogue between governments and industry.**

BREAKOUT SESSION II, SECURITY

The growing industries dealing in diamonds have created an opportunity for organized criminals to move into Canada. They expect to be able to exploit the inexperience of law enforcement agencies, other government agencies and industry with respect to the extreme value per unit mass of rough diamonds. The people most closely associated with security issues surrounding the new diamond industries concluded that:

- There is insufficient national law enforcement capability.
- There is a lack of legislation targeting the trade in illicit rough diamonds.

The breakout session on security made two recommendations:

- **Prior to the Mines Ministers' Conference in September, responsible government departments and agencies should organize a forum bringing together industry and law enforcement to develop recommendations to strengthen law enforcement to protect the integrity of the Canadian diamond industry.**
- **NRCan should be provided with the necessary resources to follow through with recommendation six of the report on value-added aspects of the Canadian diamond industry, namely to “. . . take the lead and, with other federal departments and provincial and territorial governments, work together with law enforcement agencies to establish systems to ensure the integrity of the Canadian diamond industry. These investigations should address the possible need for diamond-specific legislation.”**

BREAKOUT SESSION III, MARKETING OF ROUGH DIAMONDS

A key discussion point for governments, exploration companies, mining companies, polishing companies and the jewellery industry has been the intervention of governments in the marketing of rough diamonds. Various mechanisms have been proposed and are being employed to some extent to force marketers of Canadian rough diamonds to withhold a portion of production from the market for sale only to Canadian manufacturers. Some channelling of rough diamonds to domestic cutters is voluntary, but some people believe it should be required.

Restrictions on marketing are expected to affect the profitability of a mine; it follows that there will also be an upstream effect on exploration companies who must convince investors that a deposit, if found, may lead to a profitable mine. The Roundtable observed that “Governments must promote the development of value added without impinging upon the ability of the juniors to obtain financing.”

Some jurisdictions believe there should be a connection between mine permitting and the supply of rough diamonds to the secondary industry – and some jurisdictions do not.

The breakout session on marketing rough diamonds made the following recommendations:

- **Both governments and mining companies must be realistic and flexible regarding marketing.**
- **A study should be done on the position of the North American Free Trade Agreement (NAFTA) or World Trade Organization (WTO) regarding the provision of government incentives for value added.**
- **Government and industry should study the possibility of developing a rough diamond trading centre in Canada.**
- **The application procedure for the Kimberley Process Certificate must be more flexible.**
- **Finance Canada should remove the 10% excise tax.**

BREAKOUT SESSION IV, MARKETING OF POLISHED DIAMONDS

An excise tax on jewellery is applied under the *Excise Tax Act* (the Act) to items commonly or commercially known as jewellery, including diamonds and other precious and semi-precious stones (rough or processed). The tax on jewellery is payable by manufacturers or producers at the time of delivery to a purchaser based on the sale price of taxable items manufactured in Canada and by importers on the duty-paid value of taxable imports at the time of importation. The rate of tax is 10% on the sale price of goods manufactured or produced in Canada or on the duty-paid value of imported goods. This becomes a smaller percentage of the value of the jewellery at the retail level. Many Canadians are unaware of Canada’s jewellery excise tax, which increases the retail cost of jewellery in Canada.

The session agreed that there is a premium for a Canadian diamond. The definition of Canadian diamond has therefore become important for marketing. The Competition Bureau guideline on the definition of a Canadian diamond (mined in Canada) reflects the Bureau’s position in terms of what could trigger an investigation under the misleading advertising provisions of the *Competition Act*, although some would

like it changed. The guideline does not limit Canadian diamond marketing strategies that take advantage of secondary Canadian processing.

On the other hand, the different interests of the mining companies and the cutters and polishers in the Northwest Territories are creating an image of confusion in the retail industry. It is the retailer's responsibility to know and make clear to consumers what is being marketed.

The breakout session on marketing polished diamonds made the following recommendations:

- **The excise tax on all jewellery should be removed immediately to help develop the Canadian industry.**
- **The Competition Bureau should clarify its enforcement position with the retail segment of the industry.**
- **A federal authentication system for diamonds similar to the N.W.T. system should be developed.**
- **Federal resources should be made available to help penetrate foreign markets (trade missions).**
- **Diamonds should be included in the Branding Canada marketing strategy.**
- **Tax incentives should be considered for promoting the secondary diamond industry.**

BREAKOUT SESSION V, LABOUR FORCE DEVELOPMENTS

Labour force development covers recruitment, retention, training and education, wages, and benefits.

There are three basic ways to build a work force: in the words of the presenter at the Roundtable, you can “steal’em, bring’em, train’em.”

To steal or recruit them away from a neighbour or competitor is seen as a short-term solution as it usually leads to escalating costs, loss of profit, an increase in animosity, and loss of cooperation. Generally, it is not a good business practice in a new industry.

The second method is to bring in skilled workers from abroad under Human Resources Development Canada's Temporary Foreign Worker Program or have the skilled workers immigrate to Canada.

The third method is to train residents of Canada in the skills necessary for the business, in diamond-specific skills in mining, or in polishing skills for manufacturing.

These last two alternatives, implemented together, are what will help Canada create a sustainable diamond industry.

Skilled workers from abroad in the diamond manufacturing sector by and large do not have the required credentials for many of the jobs they are to fill. In addition, there are different labour practices, government-mandated costs, benefits packages, language differences, and difficulties with consular

support facing the Canadian company hiring abroad. Skilled diamond polishers more often come from places like Armenia or Mauritius.

One of the major barriers to be overcome deals with recognition of credentials or skill levels. Recognizing credentials or skills can be made much easier by the development of Prior Learning Assessment tools and by the development of occupational profiles or standards. While the Government of the Northwest Territories (GNWT) and the industry have undertaken a great deal of this work, much remains to be done.

In addition, training both in factory and outside factory has occurred. The manufacturing sector, prior to its takeoff, worked with the GNWT and educators in Canada and Belgium to develop industry-accepted occupational standards and certification programs. These documents provide a basis for world-class college-based training programs, as well as evaluation tools for competencies at the work site.

The N.W.T. is the only jurisdiction in Canada, and possibly the world, where a worker can be formally accredited as a journeyman diamond polisher. The GNWT has recommended that Canada establish a National Centre of Excellence in Skills Training under the federal government's Innovation Strategy. Such a centre would include training in the latest technologies and provide a place where research and development for the diamond industry can take place.

The breakout session on labour force developments made the following recommendations:

- **Encourage educational institutions and industry to work in partnership to meet the labour force required in the long term.**
- **Communicate and market the industry to labour market entrants.**
- **Settle land claims, and simplify and clarify regulatory processes.**
- **Review and replicate training and education best practices.**
- **Augment the labour force through immigration.**
- **Standardize the recognition of foreign skill sets.**
- **The diamond industry must participate in the mining sector study.**
- **Promote industry success through increased participation and retention in apprenticeship programs.**
- **Capitalize on the Aboriginal work force.**
- **Develop the Canadian labour force in areas of need, where applicable.**
- **Create a national Centre of Excellence (? virtual), including all aspects of industry.**
- **Government, industry and educational institutions should work together.**

BREAKOUT SESSION VI, BUSINESS OPPORTUNITIES FOR ABORIGINALS

There have been a number of lessons learned and successes to date in the business arrangements of Aboriginals in the diamond industries. Opportunities have been pursued in construction (joint-venture contracts), mining, exploration, the provision of goods and services, cutting and polishing. The breakout session identified that solely owned Aboriginal businesses are preferred while joint ventures require a capacity-building component and exit strategies.

The importance of First Nation communities was identified as a significant factor in the business decisions, as was a need to resolve issues associated with conflicting “outside” advice, unresolved land claims, and the cultural gap between communities and businesses. The latter centred on the relationship to land.

Work force development, education and training were linked to the problem of not being able to immediately take advantage of jobs that are available or the willingness to take lower-skilled jobs rather than making a personal investment in long-term skills development. Particular areas for training needs were identified in trades and management.

Aboriginal businesses also face financing challenges and constraints. For example, First Nation reserves cannot be used as equity. They have limitations in terms of raising taxes, issues over equipment financing, and land ownership impediments.

Aboriginal business development is also hampered by an apparent lack of clear policy frameworks supporting Aboriginal business development related to the diamond industry. The communities are looking for government to clarify its policy on impact and benefit agreements. There are differing visions and objectives between federal, territorial, provincial and community authorities. Breakout session participants favoured spreading opportunities throughout regions and clarifying the roles amongst partners. It was recognized that the ultimate goal of communities must guide any development and relations between Aboriginal communities and industry.

The breakout session on business opportunities for Aboriginals made the following recommendations:

- **Settle land claims (preferable but not essential to business development).**
- **Increase the role of corporations in understanding community goals and supporting Aboriginal business development in different ways (e.g., Aboriginal cultural tourism development).**
- **Encourage companies to be committed to working with the communities.**
- **Create a clearly defined skills development plan with emphasis on transferable skills, including management capacity.**
- **Outline clear career paths.**
- **Support the Human Resources Development Canada (HRDC) policy shifts (in some jurisdictions) to support “just-in-time training.”**
- **Build stronger relationships with banks.**

- **Develop strategies to finance reserve-based ventures.**
- **Develop national and regional vision/strategies for this component of the industry, with a common vision for industry/Aboriginal employment/business opportunities.**
- **Clearly define the policy on impact/benefit agreements.**
- **Promote an approach to joint ventures (of small and medium-sized enterprises) that lead to Aboriginal ownership (i.e., include an exit strategy).**

BREAKOUT SESSION VII, FINANCING IN THE DIAMOND INDUSTRY

World diamond industry banking indebtedness has grown from US\$4.7 billion to US\$7.1 billion since 1997 and is expected to continue to grow. This is money owed on diamonds that are being traded as rough or polished, diamonds while they are in the polishing factories, and the normal debts of trading and manufacturing enterprises. The key is the role of the diamonds as collateral for the loans and the special repayment arrangements peculiar to the diamond industry. The importance of trust and long-term relationships is crucial to the special nature of diamond financing.

The banks involved in diamond financing have indicated four general areas of interest for their role:

- price stability for the diamond product;
- growth in demand stimulated by diamond branding initiatives;
- U.S. economic stability; and
- increased transparency and disclosures.

The breakout session on financing in the diamond industry made the following recommendations:

- **Continue the Exploration Investment Tax Credit for Exploration in Canada.**
- **Streamline regulatory/permitting issues for exploration.**
- **Establish standards and protocols for impact/benefit agreements and reclamation at mines.**
- **Encourage taxation incentives for pre-development work at mines.**
- **Educate and increase awareness of opportunities within the financial sector with respect to the transformations from rough to polished to jewellery.**
- **Explore alternative equity financing for the manufacturing stages.**
- **Encourage government support for operations (secondary).**
- **Establish a joint task force involving industry and all levels of government to study financing of infrastructure (roads, ports, etc.).**

Members of the Steering Group for the Roundtable

Participants in the March 12, 2003 meeting to organize a Diamond Roundtable.

Denis Lagacé	NRCan	613-995-7029	dlagace@nrcan.gc.ca
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Martin Irving	NWT	867-873-7373	martin_irving@gov.nt.ca
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Participants in the Roundtable

National Roundtable on Canada's Diamond Industry: Economic and Social Contribution to 2015

<u>Last Name</u>	<u>First Name</u>	<u>Company</u>
Allen	Lesley	Department of Education, Culture & Employment, Government of the Northwest Territories
Anderson	Brad	Alberta Chamber of Resources
Antoine	The Hon. James	Government of the NWT
Ariel	Itay	H.R.A. Investments
Ariel	Uri	H.R.A. Investments
Armstrong	John	Indian Affairs and Northern Development
Audley	Bruce	Corona Jewellery Company
Ballantyne	David	RCMP
Ballantyne	Michael	Aber Diamond Corporation
Bancroft	Les	RCMP
Barbuzzi	Sam	Gem Scan International Inc.
Battershill	Jeff	RBC Financial Group
Ben-Oliel	Stephen	Sirius Diamonds
Bennett	Mary Ann	Skill Solution Group
Blondin-Andrew	The Hon. Ethel	Secretary of State (Children and Youth)
Bolt	Gordon	Corona Jewellery
Bone	Mike	Scotia McLeod
Botha	Mike	Embee Diamond Technologies Inc.
Boyd	Bruce	Natural Resources Canada
Boyd	Robert	Ashton Mining of Canada Inc.
Brewer	Keith	Natural Resources Canada
Brinkhaus	Norbert	Brinkhaus Jewellers
Burlingame	Denise	BHP Billiton Diamonds Inc.
Chahal	Raj	Bennett Jones
Cheechoo Sr.	Gilbert	Wakenagun
Chisholm	Carolyn	Global Public Affairs
Christensen	Eric	Diavik Diamond Mines Inc.
Cram	Cathy	GPC International
Cumine	Andrew	De Beers Canada
Cunningham	Michael	De Beers Canada
Curry	Nancy	Diamonds North Resources
d'Entremont	Craig	National Research Council of Canada
Davies	Trina	Skill Solution Group
Dhaliwal	The Honourable Herb	Natural Resources Canada
Dumaresq	Charles	Environment Canada
Dupéré	Anne	SADC de la région de Matane
Ellis	Roy	Ellis Consulting Services
Excell	Jim	BHP Billiton Diamonds Inc.
Forsyth	Craig	Scotiabank
Fox	Michael	Nishnawbe Aski Development Fund

Gammon	John B.	Ministry of Northern Development & Mines
Gates	David	Western Economic Diversification
Gauvreau	Marie-France	Industry Canada
Gill	Kashmir	National Research Council
Gniwisch	Mayer	First Canadian Diamond Cutting Works
Gougeon	Robert	Natural Resources Canada
Grifone	Susan	Skill Solution Group
Gurlock	Randy	Citizenship and Immigration Canada
Halwas	Ray	BHP Billiton Diamonds Inc.
Hancock	Paul	De Beers Canada Corporation
Hansen	Ken	RCMP
Harvey, PhD	Yves	SOQUEM INC.
Hastings	David	Office of the Prime Minister
Haworth	Richard	Natural Resources Canada
Hearn	Kate	Indian Affairs and Northern Development
Hluchowucky	Andrij	Natural Resources Canada
Hoefler	Tom	Diavik Diamond Mines Inc.
Hood	Terry	Skill Solution Group
Hudson	Brian	Alberta Energy
Hull	Dale L.	Natural Resources Canada
Iacono	Franco	Natural Resources Canada
Inman	George	Diavik Diamond Mines Inc.
Irving	Martin	Government of the NWT
Jackson	Jay	Industry Canada
Jellicoe	Brent C.	Kensington Resources Ltd.
Jones	Hilary	Arslanian Cutting Works NWT Ltd.
Jupp	Jonathan	Consultant
Kaszycki	Christine	Manitoba Industry Trade & Mines
Kennedy	Brian T.	The Can-Am Group
Klatchuk	Kristin	Skill Solution Group
Kolebaba	Mark	Diamonds North Resources
Lagacé	Denis	Ressources naturelles Canada
Law-West	Don	Indian Affairs and Northern Development
Leblanc	Denis	Mining Industry Training and Adjustment Council
Leblanc	Pierre	Canadian Diamonds Consultants
Léger	Jean-Guy	Ressources naturelles
Libman	Mark	Libman & Company Ltd.
Lomas	Robert	Natural Resources Canada
Lombardi	Paul	Henry Birks & Sons
Lougheed	Tim	Canadian Science Writers' Association
Love	Earl A.	Natural Resources Canada
MacIsaac	Bernie	Environment & Integrated Resource Management
MacNeill	Ken	Shore Gold Inc.
Malczak	John	Ontario Ministry of Northern Development and Mines
Malmsten	Carl	Government of the NWT
Manson	Matthew	Aber Diamond Corporation
McConnell	John	De Beers Canada Mining Inc.
McFadden	Neil	Deton' Cho Corporation
McGuire	Lou	Natural Resources Canada
McLeod	Robert	Government of the NWT
Meegan	Kim	Natural Resources Canada
Meyers	Rick	Indian Affairs and Northern Development

Missal	Gregory	Tahera Corporation
Morelli	Julian	Indian Affairs and Northern Development
Morton	Roger	Polar Star Diamonds Ltd.
Muir	Alexandra	Natural Resources Canada
Munn	Susan	Aber Diamond Corporation
Nault	The Hon. Robert	Indian Affairs and Northern Development
Nicholls	Graham	BHP Billiton Diamonds Inc.
Nichols	Val	Skill Solution Group
Paget	Doug	Indian Affairs and Northern Development
Parker	Steve	Custom Gold Manufacturing Ltd.
Patterson	George	Saskatchewan Industry and Resources
Paul	Clement	Aboriginal Summit
Pelletier	Serge	BHP Billiton Diamonds Inc.
Pierce	Raymond	Industry Canada
Raine	Tom	Laurelton Diamonds
Rasalingam	Raj	Pearson-Shoyama
Richardson	Jim	Business Development, Bank of Canada
Riemer	Justin	Alberta Economic Development
Sanders	Hal	Saskatchewan Industry and Resources
Singh	Sandeep	Natural Resources Canada
Sparling	Gabriela	Government of the NWT
Sproule	Catherine	Canadian Jewellers Association
Spurga	Ron	ABN AMRO Bank
Stachel	Thomas	Canada Research Chair in Diamonds
Stafford	John	Skill Solution Group
Stotyn	Cal	Human Resources Development Canada
Strand	Pamela	Shear Minerals Ltd.
Thomas	Eira	Navigator Exploration Corp.
Thorne	Jacqueline	Office of the Secretary of State
Tookate	Thomas	Attawapiskat First Nation
Tuck	James	Gemprint Corporation
Turner	Randy	Diamondex Resources Ltd.
Turtle	Norm	Royal Bank of Canada
Vanderlinden	Ronnie	Sirius Diamonds / E. Schreiber
Wabano	Mike	Weenusk First Nation
Walton	Lori	Government of Yukon
Waring	Chuck	De Beers Canada Corporation
Wasiuta	Thomas	RCMP
Wyndham	Charles	Diamonds International Canada (DICAN) Ltd.
Zeliger	Mark	Human Resources Development Canada

N.B. An additional 11 people registered for the Roundtable.

Program of the Roundtable

National Roundtable on Canada's Diamond Industry: Economic and Social Contribution to 2015

May 20-21, 2003

The Fairmont Hotel Macdonald, Edmonton

Objectives

- To determine Canada's advantages that could bring it to the forefront of the global diamond industry by 2015 as well as its impediments.
- To identify actions to capitalize on Canada's advantages and to overcome its impediments.

Tuesday, May 20, 2003

10:30 - 13:00

Registration - The Galleria (*Lobby Level*)

Opening Plenary - Empire Ballroom (*Lobby Level*)

13:15 - 13:25

Welcome

The Honourable Herb Dhaliwal, Minister of Natural Resources Canada

The Honourable James Antoine, Minister of Resources,
Wildlife and Economic Development, Northwest Territories

The Honourable Robert Nault, Minister of Indian Affairs
and Northern Development Canada

13:25 - 13:35

Setting the Context for the Roundtable

Master of Ceremonies: Tim Lougheed, Science Writer

13:35 - 14:05

Overview of the Global Diamond Industry

Speaker: Richard Wake-Walker, Diamonds International Canada
(DICAN) Ltd.

14:05 - 14:35

Overview of the Diamond Industry in Canada

Speaker: Dale Hull, Natural Resources Canada

Tuesday, May 20, 2003 (cont'd)

14:35 - 15:35

Focussed Presentations

Security

Speaker: Les Bancroft, Royal Canadian Mounted Police

Valuation

Speaker: Richard Wake-Walker, Diamonds International Canada (DICAN) Ltd.

Marketing of Rough Diamonds

Speaker: Matt Manson, Aber Diamond Corporation

15:35 - 15:50

Break - Empire Ballroom Foyer (*Lobby Level*)

15:50 - 16:50

Focussed Presentations

Marketing of Polished Diamonds

Speaker: Paul Lombardi, Henry Birks and Sons

Labour Force Development

Speaker: Hilary Jones, Arslanian Cutting Works (NWT) Ltd.

Diamond Industry Opportunities for Aboriginals

Speaker: Roy Ellis, Ellis Consulting Services

17:30 - 18:00

Reception - Wedgwood Room (*Lobby Level*)

18:00 - 19:30

Dinner - Empire Ballroom (*Lobby Level*)

Address by the Honourable Herb Dhaliwal, Minister of Natural Resources Canada - *Vision of the Diamond Industry in 2015*

Introduction: The Honourable Ethel Blondin-Andrew,
Secretary of State (Children and Youth)

Wednesday, May 21, 2003

08:00 - 09:00

Continental Breakfast - Empire Ballroom Foyer (*Lobby Level*)

Opening Plenary - Empire Ballroom (*Lobby Level*)

09:00 - 09:05

Welcome and Introductory Business

Wednesday, May 21, 2003 (cont'd)

09:05 - 09:25 Focussed Presentations

Financing in the Diamond Industry

Speaker: Anna Martin, ABN AMRO Bank N.V.

09:25 - 09:35 Breakout into Assigned Dialogue Sessions

09:35 - 11:35 Concurrent Dialogue Sessions on Issues Impacting on Canada's Diamond Industry

Valuation

Wedgwood Room (*Lobby Level*)

Security

Royal Suite (*8th Floor*)

Marketing of Rough Diamonds

Jasper Room (*Mezz Level*)

Marketing of Polished Diamonds

Edmonton Room (*Mezz Level*)

Labour Force Development

Gazebo Room (*Lobby Level*)

Business Opportunities for Aboriginals

The Boardroom (*Mezz Level*)

Financing in the Diamond Industry

Drawing Room (*Mezz Level*)

11:35 - 13:30 Lunch - Empire Ballroom Foyer (*Lobby Level*)

Closing Plenary - Empire Ballroom (*Lobby Level*)

13:30 - 14:45 Reports of the Roundtable Concurrent Dialogue Sessions and Discussion

Valuation

Rapporteur: Don Law-West, Department of Indian Affairs and Northern Development Canada

Security

Rapporteur: Ray Halwas, BHP Billiton Diamonds Inc.

Marketing of Rough Diamonds

Rapporteur: Serge Pelletier, BHP Billiton Diamonds Inc.

Marketing of Polished Diamonds

Rapporteur: Bruce Audley, Corona Jewellery Company

Labour Force Development

Rapporteur: Jonathan Jupp, Consultant

Business Opportunities for Aboriginals

Rapporteur: Andrew Hart, Tiffany & Co.

Wednesday, May 21, 2003 (cont'd)

Financing in the Diamond Industry

Rapporteur: Norm Turtle, Royal Bank of Canada

14:45 - 15:00

Closing Remarks

The Honourable Herb Dhaliwal, Minister of Natural Resources
Canada

Conclusions and Recommendations of the Breakout Groups of the Roundtable

VALUATION

Conclusions/Observations

- Governments of most major diamond-producing countries have a valuation process prior to exporting.
- An effective valuation system needs to be independent, transparent, timely and statistically accurate.
- Transparent does not necessarily mean public information.
- Industry and government recognize the need to continue to foster the environment of cooperation with regard to the valuation process in maintaining flexibility to meet changing circumstances.
- At the present time, there are very few independent valuers available to government or industry and there is a lack of domestic expertise able to carry out the valuation process in Canada.
- The system being used in the Northwest Territories (N.W.T.) for the last five years has resulted in an accumulation of knowledge on valuation systems, processes and methodologies.
- The system used in the N.W.T. has been effective given that revenues being reported are similar to that expected from the valuation process.
- Industry and several jurisdictions have indicated that the potential benefit of the proactive transfer of the knowledge gained to date could prevent duplication of efforts and lead to more efficient valuation processes.
- In the event that a jurisdiction takes on multiple roles, such as a joint-venture partnership, or policy initiatives, there must be measures taken to avoid perceived conflicts of interest.

Recommendations

- As diamond production increases, governments should explore an effective valuation system through harmonization and coordination.
- There should be a proactive exchange of information to ensure systems are in place to avoid any delays.
- Canada should develop a strategy to achieve the expertise and capacity in valuation to build credibility in our industry and develop the potential for exporting that expertise.
- Whatever valuation process is established, efforts should be made to maintain cooperative and open dialogue between governments and industry.

SECURITY

Conclusions/Observations

- There is insufficient national law enforcement capability.
- There is a lack of legislation targeting the trade in illicit rough diamonds.

Recommendations

- Prior to the Mines Ministers' Conference in September, responsible government departments and agencies should organize a forum bringing together industry and law enforcement to develop recommendations to strengthen law enforcement to protect the integrity of the Canadian diamond industry.
- NRCan should be provided with the necessary resources to follow through with recommendation six of the report on value-added aspects of the Canadian diamond industry, namely, to take the lead and, with other federal departments and provincial and territorial governments, work together with law enforcement agencies to establish systems to ensure the integrity of the Canadian diamond industry. These investigations should address the possible need for diamond-specific legislation.

MARKETING OF ROUGH DIAMONDS

Conclusions/Observations

- Governments must promote the development of value added without impinging upon the ability of the juniors to obtain financing.
- Governments are expected to get as much as possible from the industry without killing the “golden goose.”
- Some jurisdictions believe there should be a connection between mine permitting and the supply of rough diamonds to the secondary industry – and some jurisdictions do not.
- There is a demand for Canadian diamonds within Canada and, depending on who you talk to, there is a premium for Canadian diamonds.
- The Kimberley Process works well.
- Mining companies must be allowed to market rough diamonds as they want.
- At this point, the mining companies are supplying more rough diamonds to the local cutting and polishing factories than they can handle.

Recommendations

- Both governments and mining companies must be realistic and flexible regarding marketing.
- A study should be done on the position of the North American Free Trade Agreement (NAFTA) or World Trade Organization (WTO) regarding the provision of government incentives for value added.
- Government and industry should study the possibility of developing a rough diamond trading centre in Canada.
- The application procedure for the Kimberley Process Certificate must be more flexible.
- Finance Canada should remove the 10% excise tax.

MARKETING OF POLISHED DIAMONDS

Conclusions/Observations

- Many Canadians are unaware of Canada's jewellery excise tax, which increases the retail cost of jewellery in Canada.
- There is a premium for a Canadian diamond.
- The Competition Bureau guideline on the definition of a Canadian diamond reflects the Bureau's position in terms of what could trigger an investigation under the misleading advertising provisions of the *Competition Act* – although some would like it changed.
- The guideline does not limit Canadian diamond marketing strategies that take advantage of secondary Canadian processing.
- Different interests are creating an image of confusion in the retail industry – we need to clarify what is being marketed throughout the industry.
- It is the retailer's responsibility to know and make clear to consumers what is being marketed.

Recommendations

- The excise tax on all jewellery should be removed immediately to help develop the Canadian industry.
- The Competition Bureau should clarify its enforcement position with the retail segment of the industry.
- A federal authentication system for diamonds similar to the N.W.T. system should be developed.
- Federal resources should be made available to help penetrate foreign markets (trade missions).
- Diamonds should be included in the Branding Canada marketing strategy.
- Tax incentives should be considered for promoting the secondary diamond industry.

LABOUR FORCE DEVELOPMENTS

Recommendations

- Encourage educational institutions and industry to work in partnership to meet the labour force required in the long term.
- Communicate and market the industry to labour market entrants.
- Settle land claims and simplify and clarify regulatory processes.
- Review and replicate training and education best practices.
- Augment the labour force through immigration.
- Standardize the recognition of foreign skill sets.
- The diamond industry must participate in the mining sector study.
- Promote industry success through increased participation and retention in apprenticeship programs.
- Capitalize on the Aboriginal work force.
- Develop the Canadian labour force in areas of need, where applicable.
- Create a national Centre of Excellence (? virtual), including all aspects of industry.
- Government, industry and educational institutions should work together.

BUSINESS OPPORTUNITIES FOR ABORIGINALS

Lessons Learned and Successes to Date

- Construction (joint-venture contracts).
- Mining operations.
- Exploration sector.
- Provision of goods and services to above.
- Cutting and polishing (limited).
- Solely owned Aboriginal businesses are preferred; joint ventures approved but require capacity-building component and exit strategies.

Issues/Challenges

- Community tensions/pressure for First Nation communities to change:
 - Conflicting “outside” advice/guidance,
 - Unresolved land claim situations,
 - Cultural gap between communities and businesses (relationship to land is key).
- Capacity and work force development issues (education and training):
 - Cannot immediately take advantage of jobs that are available,
 - “Instant gratification” of immediately available jobs – reluctance (by some) for long-term skills development training,
 - Lack of depth (trades – management).
- Financing challenges:
 - First Nation reserves cannot be used as equity,
 - Limitations in terms of raising taxes,
 - Equipment financing still an issue.
- Lack of clear policy frameworks (supporting Aboriginal business development relating to diamond industry):
 - Government has not clarified policy on benefit agreements,
 - Different visions/objectives between federal/territorial/provincial/communities,
 - Need to spread opportunities throughout regions,
 - Unclear roles amongst partners.

Solutions/Recommendations

- Community tensions/pressure for First Nation communities to change:
 - Settle land claims – BUT unresolved land claims do not need to be impediments,
 - Increase role of corporations in understanding community goals and supporting Aboriginal business development in different ways (e.g., Aboriginal cultural tourism development),
 - Companies need to be committed to working with the communities.
- Capacity and work force development issues (education and training):
 - Clearly defined skills development plan (emphasis on transferable skills),
 - Management capacity,
 - Clear career paths outlined,
 - Human Resources Development Canada (HRDC) policy shifts (in some jurisdictions) to support “just-in-time training.”

- Financing challenges:
 - Need to build stronger relationships with banks – based upon trust,
 - Develop strategies to finance reserve-based ventures.
- Lack of clear policy framework:
 - Develop national and regional vision/strategies for this component of the industry,
 - Common vision for industry/Aboriginal employment/business opportunities needs to be developed,
 - Clearly defined policy on impact/benefit agreements.

FINANCING IN THE DIAMOND INDUSTRY

Conclusions/Recommendations

- Exploration:
 - Continue the Investment Tax Credit for Exploration in Canada,
 - Streamline regulatory/permitting issues.
- Mine development:
 - Establish standards and protocols for impact/benefit agreements and reclamation,
 - Encourage taxation incentives for pre-development work.
- Rough to polished to jewellery:
 - Educate and increase awareness of opportunities within the financial sector,
 - Explore alternative equity financing,
 - Government support for operations (secondary).
- Infrastructure:
 - Establish joint task force involving industry and all levels of government to study financing of infrastructure (roads, ports, etc.).