Diamonds and "Made in Canada" Labeling
Submission to the Competition Bureau of Canada

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<u>Preamble</u>

It is gratifying that the Competition Bureau recognizes the importance of the "country-of-origin" identity issue to the Canadian diamond industry. We welcome the opportunity to make this representation on the "Made in Canada" Notice of Consulation. The diamond industry in Canada, after a long period of germination, is becoming increasingly important for this country, and especially important for the economy of the North. Canada is also becoming a major player in the international diamond world. Aber Diamond Corporation has been at the forefront of the Canadian industry since the first discoveries at Lac de Gras in the early 1990s, and is now close to joining the growing list of Canadian diamond producers. Aber has a 40% ownership of the Diavik project (60% Rio Tinto) and 32% of the Snap Lake Project (68% De Beers). Diavik is close to a formal production decision, and Snap Lake is in the very final stages of advanced exploration. Should both projects come on stream together, Aber would become the premier producer and marketer of Canadian diamonds, and by far the largest Canadian company so doing. We do not operate these projects. Rather, we will receive our share of the production in kind, and our strategy is to maximize our shareholders' return by becoming integrated with the downstream marketing of our product. It is with a great deal of interest, therefore, and some concern, that we address the issue of "Made in Canada" labeling for Canadian Diamonds.

We appreciate that the mandate of the Competition Bureau concerns the sale of diamonds within Canada. The vast majority of Aber's diamonds, as with those of the other producers, will be sold outside Canada. However, the manner under which our production can be marketed in our own country will have an influence on our wider marketing opportunities, especially when country-of-origin is our natural marketing advantage. We feel the proposal to limit the "Canadian" or "of Canada" descriptions to stones both mined and manufactured in Canada will serve to restrict the ability of Canadian diamond mining and marketing companies to achieve their full potential within the world diamond industry. By regulating the use of country-of-origin terminology in this way, the proposals aim to boost a local NWT polishing industry which for historical, demographic and structural reasons cannot be boosted beyond it's status as a regional, speciality industry. Whilst we intent to be involved in the NWT polishing industry, and believe it to be viable under the correct conditions, most parties will agree that it cannot rival the major cutting centers of the world such as Tel Aviv, Antwerp and Bombay. Despite the best efforts of government and the entrepreneurial spirit of local manufacturers, the vast majority of the diamond production from Canada will be processed outside Canada, in centers where skills and credit are in combination and where it is economically viable to do so.

Canadian Diamonds as a Natural Resource and Commercial Product

The first part of our submission addresses the definition of the diamond as a commercial product under section D.1.2 of the *Guidelines with Respect to the Sale and Marketing of Diamonds, Coloured Gemstones and Pearls*. We address ourselves to the suggested talking points.

1. When should a diamond be deemed to “come into being”? Why

A diamond is a mineral. The precious gemstone prized for its beauty and rarity is also a mineral resource. Clearly, as with other mineral resources, the diamond “comes into being” within its geological host, and hence at the point of extraction. A diamond, even a polished diamond, is not a fabricated product. The subsequent processing or “manufacture” of a diamond is designed to accentuate some inherent physical properties of the stone, such as its clarity (read transparent), colour (read colourless), brilliance (read high refractive index) and shape (read isometric). Thus the features of a polished stone, such as its facets, cut and sparkle are a function of the initial geological product. These features are not made, but are brought out of the rough.

2. What do consumers and trade buyers perceive by the terms “Canadian diamond” and “Diamond of Canada” or equivalent Canadian typical symbols or words to mean? What are purchasers’ expectations when they seek out a “Canadian diamond”? Are they looking for a diamond that is: (i) mined in Canada; (ii) mined, cut and polished in Canada; or (iii) cut and polished in Canada

The diamond trade currently recognizes “Canadian Diamonds” and “Diamonds of Canada” to mean diamonds produced from the Ekati™ mine. This recognition is irrespective of the location of any polishing factory. We find that Aber’s future diamond production is referred to by the diamond trade as “Canadian” quite unambiguously. We find, in the polished market and retail trade, that the cutting and polishing of a Canadian stone in Canada imparts a qualification of the basic Canadian identity. Thus a Canadian stone becomes “a Canadian diamond also polished in Canada”. Our market research tells us that the consumer, if they have heard of the Canadian diamond industry, recognizes “Canadian Diamond” to mean a diamond mined in Canada, because they recognize a diamond to be an eternal, precious commodity that cannot be created in a factory.

We recognize that there is concern in the retail trade that the origin of a diamond can be verified. The issue of “Conflict Diamonds”, however, has helped to foster a general movement in the diamond industry towards more reliable tracking, or “Chain of Warranty”, systems. At Aber, we have already begun the process of having our diamond handling systems and manufacturing partners ISO 9002 certified. The existing checks and balances within the diamond industry make the verification of a diamond’s provenance fully certifiable by respected third party agencies such as ISO. We are approaching a time when parcels of rough diamonds and individual polished diamonds will be sold with respected hallmarks of authenticity, and we anticipate that concern over a diamond’s origin can be addressed.

3. Is it industry practice to refer to the origin of the diamond, gem or other stone as the place where it was mined? Provide details.

Gemstones, including diamonds, are usually associated by the trade with the country where they were mined because this is an effective way of describing some inherent qualities in those stones. A gemstone dealer will discuss Columbian emeralds or Afghani emeralds and by so doing will communicate information, perhaps, about the stone's colour. Already, the diamond trade has a specific technical association for the expression "Canadian Goods". This association is different for manufacturers who polish the stones and are concerned with how the stones perform on the polishing wheel, and polished diamond marketers, who are alluding with this term, perhaps, to the colour and clarity profile of a parcel of diamonds (the Canadian production is known for its high colours). The only segment of the diamond industry where there is not a technical association with the country of origin is the downstream jewelry trade, which buys individual stones on a near-commodity basis. However, with the increased vertical integration of the diamond business, it is becoming increasingly natural for these trade identifications to be passed down the pipeline and to become incorporated in the marketing of the stones at the point of sale. This process has already started, and will continue independently of any Canadian legislation on diamond labeling.

Canada as a World Leader in the International Diamond Market?

How then should the labeling of Canadian diamonds be handled, when only a small fraction of the Canadian production will ever be polished in Canada? We believe the following points are pertinent to the discussion.

Restrictions on the terminology of Canadian origin will hinder the marketing of the bulk of Canadian diamonds for the benefit of the few that will be manufactured in Canada.

Canada is becoming a major exporter of diamonds. By 2010 we might expect to be producing 15% of world consumption by value, behind only Botswana and Russia. Whilst this level is significant in itself, the true level of importance of Canada in the diamond trade stands to be much higher, and will be achieved through marketing. The marketing of diamonds is increasingly focused on their country of origin. The Canadian "brand" is uniquely suited to these new marketing efforts, as it conveys a sense of honesty, trustworthiness, purity and reliability: all valued traits in the precious gem business. The Canadian brand is also particularly successful in the all important American diamond market, which last year accounted for 48% of world diamond sales in jewellery. As if this weren't enough of a good business opportunity for Canadian diamond producers, the type of diamonds produced by our mines are an excellent match in colour and clarity for the traditional appetites of the US consumer. This opportunity will be compromised if diamonds that originate in Canada cannot be identified as being unequivocally "Canadian". If by Canadian government standards "Canadian" diamonds means only those mined and polished in Canada, then the Canadian brand runs the risk of becoming a parochial and regional anomaly in the diamond business, and the vast bulk of this "Canadian" product will disappear into the existing diamond business, to be sold by non-Canadian companies under non-Canadian brands and with no opportunity for a premium price. This in turn will be self defeating for the Canadian diamond polishing industry, which will see no wider Canadian-identity marketing support.

Strict Made in [Country] terminology of the type applied in manufacturing industries is not appropriate for the marketing of precious gems.

Gemstones are not commodities, but are sold as luxury items to a public eager to associate these objects of beauty and value to a special event in their lives. The special attachment of a diamond, say, to a moment of deep personal significance is encouraged by careful marketing. Diamonds are sold with as much essence of the romantic as can be achieved. "Canadian" is a romantic conception for many people in the world. "Mined in Canada, cut and polished in (name of country)" is not romantic and will not assist in the marketing of the stone.

Strict Made in [Country] terminology of the type applied in manufacturing industries is inappropriate in the context of "Chain of Warranties" systems becoming adopted in the world diamond trade.

In the efforts to curb the unethical trade in "Conflict Diamonds", Canada, through its representative at the United Nations, has played a leading role. The solution developing, and likely to be adopted by the diamond industry in one form or another, is the Chain of Warranties system. In this new climate of diamond appellation controllée, it is the diamond's country of origin that is pertinent not the country of manufacture. Whilst the world is moving towards unambiguous identification of a stone's provenance, any "Made in Canada" proposal that gives a Canadian identity on the basis of the country of manufacture is an unwelcome obfuscation. Should a system be adopted that is similar to the temporary guidelines recommended by the Bureau, a stone mined outside Canada, but processed within Canada, could obtain a Canadian identity of some type. This transference of national identity runs opposite to the whole direction of the international diamond community, and threatens to damage the good name of Canadian diamonds. The simple question "Is the Stone Canadian or Not", in the context of the prevailing climate in the diamond industry, can only be read as "Was the Stone Mined in Canada or Not?"

Proposal

We believe that the expression "Canadian" should be, and will become by de facto acceptance by the diamond trade, the baseline marketing adjective for diamonds mined in Canada. We would welcome Canadian manufacturers using additional labeling or identification in their marketing to illustrate that their stones are *also* polished in Canada. Such manufacturers might well derive a commercial advantage by this approach. However, we do not believe that restrictions should be placed on Canadian mined, but non-Canadian manufactured stones as being somehow less Canadian. The current guidelines assume a baseline assumption that a stone is "Canadian" if it is both mined and polished (fully) in Canada. Subsequent labeling becomes a detraction from this identity. We believe our proposal is the more constructive approach for the good of all segments of the Canadian diamond industry.