Diamond Policy Framework

JCK 2019

Northwest Territories
Industry, Tourism and Investment
Background

- Diamond Policy Framework established in 1999 shortly after the Ekati Diamond Mine began operations.

- Agreements with NWT diamond producers require them to offer 10% of their production to Approved NWT Diamond Manufacturers (ANDM) (estimated US $150 M annually)

- Under 1999-2018 policy, ANDM were required to manufacture all diamonds purchased under these agreements in the NWT.

- Despite some early successes, the previous policy had not been successful in creating an operating environment for the secondary industry to flourish.
Operating Environment

• The NWT is the most expensive jurisdiction in which to operate a manufacturing facility

• Existing and potential manufacturers have indicated that the prohibitive operating costs are the principal barrier to successful manufacturing operations in the NWT

• Despite these costs, manufacturers continue to show interest in NWT manufacturing opportunities
Vision

• Maximize the asset by leveraging the agreements with producers to support a diversified secondary industry

• Create a diversified and sustainable environment for investment; diamond manufacturing will be a component, not the key to the secondary industry success

• Population growth and skill development, driven by diverse industry opportunities including tourism development, retail investment, jewellery manufacturing and high-skill diamond planning centres will be the key drivers
Policy Review

- An international subject matter expert was required

- The Constell Group, an international consultancy firm, was contracted to help identify policy options that could be considered

- Reviews undertaken of other beneficiation regions

- Consultation with producers, manufacturers, GNWT
New Ideas

- Adopt an export provision for NWT rough
- Explore the concept of “beneficiation versus allocation” - allowing an investor to export NWT diamonds contingent upon an appropriate diverse investment in the NWT
- Encourage high-value, high-skill diamond planning and lasering operations
- Re-visit the ITI branding strategy
- Consider the concept of a Combined Manufacturing Unit (CMU)
- Training Centre - explore the development of a training centre (local and international participants)
New Ideas

• **Export Provision**
  - An export provision is critical to any secondary success in the NWT, the volume of export would be directly tied to level of investment in the NWT
  - This would enable ANDM to sustain a manufacturing operation in the NWT – manufacture higher quality rough in the NWT – export a portion to a lower cost manufacturing center.

• **Diverse Investment**
  - An investment that provides a service, trains or employs workers, results in the construction or expansion of particular facilities or involves the carrying out of research and development in the NWT (e.g. a Jewellery Retail business, a Diamond Tourism initiative or an Interpretive Centre). The eligibility of any diverse investments will be evaluated on a case by case basis.
ITI will allow manufacturer to export a portion of their allocation based on their business proposal

ITI worked with internal SMEs (economists / trade experts) and with Constell to develop investment assessment parameters and the associated matrix

The matrix assesses weighted key drivers to determine the volume of rough that can be exported

ANDM must meet minimum standards to be eligible for the export provision

Assessment

To be eligible for export, an ANDM must provide a business plan that meets investment requirements
Matrix Key Drivers

<table>
<thead>
<tr>
<th>Driver</th>
<th>Points</th>
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<tbody>
<tr>
<td>Employment (FTE)</td>
<td>40</td>
</tr>
<tr>
<td>Diamond Industry</td>
<td>(30)</td>
</tr>
<tr>
<td>Diverse Investment</td>
<td>(10)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>25</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>20</td>
</tr>
<tr>
<td>Diverse Investment</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
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</table>
Assessment and Export

<table>
<thead>
<tr>
<th>Score</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. &gt; 95</td>
<td>90%</td>
</tr>
<tr>
<td>b. 85 - 94</td>
<td>85%</td>
</tr>
<tr>
<td>c. 70 – 84</td>
<td>80%</td>
</tr>
<tr>
<td>d. 55 – 69</td>
<td>75%</td>
</tr>
<tr>
<td>e. 30 – 54</td>
<td>70%</td>
</tr>
</tbody>
</table>

- 30-54 is the minimum required score in order to qualify for export

*Note: The maximum an ANDM can score without diverse investment is 80% export*