
# THAT SINKING FEELING

Rough prices have been less than inspiring over the past few years. There's new competition from lab-grown gems. Investment in Northern exploration is dragging. Is this where the Northern diamond industry starts turning out the lights?

BY COOPER LANGFORD

It happened so quickly. On November 12, 1991 a small company named Dia Met Minerals issued a press release to announce it had recovered 81 diamonds from a 59-kilogram sample of kimberlite. The discovery, made at an obscure lake in the Northwest Territories, was a shot heard around the world. It set off what became, almost overnight, the largest staking rush in Canadian history. The first diamond mine opened in just under seven years—a remarkable pace. It was followed by three more mines that, as a collection, became the cornerstone of an industry that has contributed more than $12 billion to the territory's economy.

It's been a helluva ride. Today, however, you're more likely to find the unbridled optimism of the 1990s replaced by a sense of "well, it was great while it lasted." Part of that stems from the simple fact that diamond mining in the NWT is in its mature years. The end of the road is in sight for Ekati and Diavik, the first two mines to come into production. Snap Lake, the third, closed in 2015, having proven unprofitable due to complex engineering issues. The Gahcho Kué mine is the newcomer—it achieved commercial production in 2016—but its mine life is estimated at only around 12 years.

The end of the first generation of diamond development in the NWT has always been foreseeable. What's troubling is that the wind seems to have left the industry's sails almost entirely. Consider: According to the Prospectors & Developers Association of Canada, diamond projects earned just 1.6 per cent of the money raised on the country's stock exchanges in 2018; a decline of 20 per cent from 2017. The good news is that the percentage still represents a substantial amount of cash. According to Natural Resources Canada, explorers spent $107 million on Canadian diamond projects in 2018. The not-so-good news for Northerners? Most of that money was spent in Saskatchewan.

Indeed, of the 20 projects in the Yukon, NWT and Nunavut that made NRCan's 100 Top Exploration projects in Canada (based on spending), only two focused on diamonds; one in Nunavut and one in the NWT. Together, they accounted for a slender $5.5 million of the $216.7 million in spending across the territories. The weakness in financing was enough that one exploration junior, a firm called Dunnedin Ventures Inc., opted to pivot. It parked its advanced-stage Kahuna diamond project near Rankin Inlet earlier this year and is now focusing on more investment-friendly copper and gold projects in British Columbia and Arizona.

Obviously, the North is a long way from the heady days of the Great Diamond Rush—not that anyone ever expected it to return. But it's only been two decades since the start of commercial diamond mining with Ekati in October of 1998. Is it truly time to ask, whither diamonds?

ONLY A FEW YEARS AGO, diamonds were at the top of their game. Internationally, they were among the first luxury items to recover from the financial crisis of 2008-09 and the recession that followed. By 2011, the dark years were in the rearview mirror. A buoyant sense of relief was settling over traditional diamond markets and a new one was opening up in China. An increasingly wealthy population was starting to buy diamonds for engagement rings and as corporate gifts for esteemed colleagues.

Diamond prices hit record levels in those heady days and were likely factors in positive investments being made in the Northern industry, such as the greenlight given to construct Gahcho Kué and the now twice-delayed decision to start development of Ekati's Jay pipe, which would extend the mine's life by 10 years, perhaps more.

COURTESY DIAVIK DIAMOND MINES

DIAMONDS AREN'T FOREVER: The Diavik diamond mine reached commercial production in 2003. Mining operations are scheduled to stop in 2025.

Good times, however, don't last forever. While prices were strong, the government of India began easing lending to the country's diamond cutting and polishing industry, which produces 90 per cent of the world's gem stones, by some estimates. Flush with cash, the Indian factories began stocking up on rough, speculating that their inventories would serve them well in a rising price environment. Then, in June of 2015, the Chinese stock market crashed, shedding a third of its value in just one month. The easy-going days of the diamond business crashed right along side it, leaving large inventories of gems with no market to absorb them.

Since then rough diamond prices have been less than inspiring. Larger stones—one carat and above—saw a recovery from the mid-decade crash in 2018, but the trend turned downward again in 2019, driven in part by economic uncertainty over the U.S. trade war with China and increasing signals of recession risk. Meantime, the market for small stones, those up to half a carat, has been weak and falling for years.

In the meantime, the diamond industry is confronting a new reality: lab-grown diamonds.

There's an old joke in geological circles that says, "a diamond is nothing more than a lump of carbon that made good under pressure." Since the 1950s, scientists have been able to grow their own, recreating the pressure—and temperatures—that cause diamonds to form deep within the earth. In more recent years, that know-how has been applied to producing gem-quality stones, which can be made to any size and colour a customer desires. You can skip the fuss, bother and expense of having to find such a stone somewhere under the earth's surface.

Debate over whether lab-grown will displace natural diamonds in the marketplace is a hot topic. There's wide agreement that natural gems will always hold the dominant position at the higher end. Their rarity ensures their value against a diamond you can effectively order from a catalogue. At the lower end, however, the competition is heating up.

Meghan Markle—aka the Duchess of Sussex—scored international media coverage in January, for example, when she wore a US$800 pair of lab-grown diamond earrings while visiting Smart Works, a London-based charity that provides business wardrobes and coaching for unemployed women trying to re-enter the workforce. Another celebrity endorsement comes via Leonardo Dicaprio, who is backing the San Francisco-based manufacturer, Diamond Foundry. The message is getting through. Numerous industry reports point to a growing popularity for lab-grown diamonds among millennials, who are not as attached to diamond traditions as other generations.

Even De Beers—still the elder statesman of the diamond mining industry, if no longer its master—is finding lab-grown diamonds significant. It entered the market in 2018 with Lightbox, its own brand of manufactured gems.

Add up the evidence, and one thing is clear: Rough prices will certainly recover, sooner or later. When they do, however, a good part of the world's diamond production by volume will be going up against a new competitor in a market that's changed. ••

BACK IN THE NORTH, it's a guessing game around how international trends will affect the prospects for future exploration, discovery and mine planning. At least there's some good news. New York-based diamond analyst Paul Zimnisky, whose research contributed to the global market picture presented above, says that the over-supply currently weighing on diamond prices is likely to clear in the coming months. "I think the industry will have worked through that excess supply by the middle of next year, assuming we don't have any disruption to demand," he says. "If the U.S. goes into recession or say China's GDP goes from six per cent growth to two per cent growth, that would change things."

As for rough prices, the Boston-headquartered market research firm Bain & Co. predicts they'll remain relatively flat through to 2030. At least signals reduced volatility, and investors like certainty. So, overall market stability is a plus for the North.

There's also broad agreement that lab-grown diamonds will not become a major competitor for natural diamonds. Estimates vary, but Bain & Co. predicts lab-grown gems will occupy only five-to-10 per cent of the market by value in the coming years, mainly at the lower-end "fashion jewellery"—as opposed to "luxury"—segment. Ziminsky expects production of lab-grown gems to continue its upward trend, although those stones will pose no serious competition to natural diamonds beyond the low end of the market.

But here's a challenge. On a conference call with analysts earlier this year, Stuart Brown—CEO Mountain Province Diamonds, a 49 per cent partner in the Gahcho Kué mine—fielded questions about the potential impact of lab-grown gems on his company. Brown said he wasn't overly concerned, noting that Gahcho Kué has a strong population of larger stones that can be profitably mined, even if some of the lower end of the market is lost to lab-grown stones.

Stuart went on to suggest that Gahcho Kué could deal with that by raising its cut-off grades, i.e. not worry about recovering smaller diamonds. It's great that Gahcho Kué has that option, but it doesn't work across the board. The value of a diamond mine comes from its mix of stones—one mine might produce smaller volume, but have a high-percentage of top-quality diamonds. Another might succeed with a high volume of mid-tier rough. It all depends. And in a high-cost jurisdiction like the North, you need as wide a spectrum for profitability as possible. If market conditions lead to higher cut-offs, fewer discoveries here may prove to be economic over the long term.

Fewer successes will no doubt dampen the appetite for Northern diamond exploration. The industry is already a tough sell. It's small and complicated. Major investors may simply choose to ignore it when they could just as readily invest in easier to understand commodities, such as gold. And if no one is paying attention, the sector could simply be forgotten. "Raising money is damned hard," says Chris Jennings, a diamond explorer and investor who played a key role in the Diavik discovery. "It's a risk... We need someone... that gets the market excited."


COURTESY DIAVIK DIAMOND MINES

Moreover, the industry needs to renew its message to consumers. De Beers retired its famous "A Diamond Is Forever" slogan picked up the slack and made the case for why people should desire diamonds. That may be part of the reason why lab-grown diamonds are getting attention. They've got space to tell their story.

Diamond miners are stepping up to this challenge via the four-year-old Diamond Producers Association. In October, it launched a new high-profile consumer marketing campaign aimed at the under-30 crowd centred on themes including "Three Billion Years in The Making," "Real Is A Diamond," and "Before There Was Life, There Were Diamonds." At its centre is an epic three-minute video as Hollywood as it gets (see realisadiamond.com).

Those who hope to see a diamond future in the North should pay attention, not only to the producers' association and its story, but also to the story miners and explorers have to tell. Good marketing for natural diamond will help maintain breadth in the market, which is important for a challenging economic environment, like the North's. Good storytelling around the investment potential will help prevent interest from simply drifting away. The North needs both if more significant discoveries are to be made. There will never be a return to the days of the rush. That was a historic one-off. But no one ever said the rest of the industry has to be one, too.